

LRSA REAUTHORIZATION ACT OF 1989

HEARING
BEFORE THE
SUBCOMMITTEE ON SURFACE TRANSPORTATION
OF THE
COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE
ONE HUNDRED FIRST CONGRESS
FIRST SESSION
ON
S. 255
TO AUTHORIZE APPROPRIATIONS FOR THE LOCAL RAIL SERVICE
ASSISTANCE PROGRAM

APRIL 6, 1989

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LRSA REAUTHORIZATION ACT OF 1989

THURSDAY, APRIL 6, 1989

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON SURFACE TRANSPORTATION,
Washington, DC.

The subcommittee met, pursuant to notice at 3:35 p.m. in room SR-253, Russell Senate Office Building, Hon. J. James Exon [chairman of the subcommittee] presiding.

Staff members assigned to this hearing: Sheryl Weber Washington, professional staff member; Robert Holleyman, staff counsel; and William Heyer, minority staff counsel.

OPENING STATEMENT BY SENATOR EXON

Senator EXON. This afternoon the Surface Transportation Subcommittee is holding a hearing on the reauthorization of the Local Rail Surface Assistance Program called LRSA. We will be taking testimony concerning the effectiveness of this Federal program, the need for its continuation, as well as the status of the local rail services in this country.

As many of you know, after a hearing on LRSA last year, the Commerce Committee approved a three-year LRSA reauthorization bill. However, some opposition prevented this bill from being considered on the Senate floor.

This year, Senator Harkin has introduced S.255, which would provide for an authorization of \$10 million for fiscal year 1989, \$25 million for fiscal year 1990 and \$25 million for fiscal year 1991. I am a co-sponsor of this measure along with Senators Pressler, Rockefeller, Burdick and others.

Under the present LRSA program, Federal funds may be used as seed money to leverage local investment in rail lines which have received ICC abandonment authorization and also for rehabilitation of light density rail lines. As many of you know, in some states with large rural areas the railroads are continuing to abandon marginal light density lines, some of which have survived as short lines.

As a result, the structure of our railroad system continues to be in transition today, just as it was 13 years ago when Congress acted to expand the LRSA program to all states. In May of 1987, an additional 7,409 miles of railroad were in jeopardy of abandonment. However, the authorization of funding for LRSA expired at the end of fiscal year 1988.

Last year, the previous administration recommended the program be discontinued, in part because states and private interests

were more significantly supporting rail needs. But I would submit that as a result of the LRSA program, nationally over 10,000 miles of railroads have either been purchased or rehabilitated as a direct result of LRSA.

In my home state of Nebraska, some of the projects assisted by LRSA funds include rehabilitation of 30 miles of the Chicago Northwestern line between Long Pine and Stuart, rehabilitation of the Sidney and Lowell Railroad between Huntley and Brownson and an emergency repair of the flood damaged Burlington Northern Line between Burrus and Milligan.

Today the Subcommittee will have an opportunity to examine the program in the light of its record, explore with DOT its support for a one-year, fiscal year 1989 appropriation, as well as consider the role LRSA plays in maintaining the economic viability of rural America.

I have an opening statement that the Chairman, Senator Hollings would like to have included in the record.

[The statement follows:]

OPENING STATEMENT BY THE CHAIRMAN

The Local Rail Service Assistance (LRSA) Program was initially created in 1973. As modified over the years, this program has provided assistance to the States in helping finance the purchase and rehabilitation of rail lines that would otherwise have been candidates for abandonment. States and communities have used this program, in partnership with the Federal government and with industry, to preserve rail service in areas of the country where continued rail service was in jeopardy. Small communities and rural areas have been particular advocates of LRSA, believing that it has preserved rail service for shippers and provided opportunities for economic development. States have also received planning money through LRSA whereby their future rail needs may be assessed and with which they may maintain ongoing inventories of rail stock, track conditions and shipper needs within their states.

The Administration, and some others, have questioned whether there is a continuing need for LRSA given the number of line sales, rail spinoffs, acquisitions and subsequent rehabilitation in recent years—a rationalization of the nation's rail system. During the 100th Congress, the Commerce Committee answered the question of whether there was a continuing need for LRSA in the affirmative: the Committee voted, without objection, to reauthorization funding for LRSA for fiscal years 1989, 1990 and 1991. In recognition of Federal budget needs, however, the Committee voted to increase the non-Federal match that would be required for the receipt of Federal funds, from 30 percent to 40 percent.

Like the Committee's Amtrak reauthorization legislation, LRSA legislation failed to receive consideration on the Senate floor prior to adjournment of the 100th Congress, as did an LRSA reauthorization approved by the House and sent to the Senate. Unlike Amtrak, the LRSA program has not continued in operation through appropriated funds in the absence of an authorization. It is my understanding, however, that the Reagan Administration did commit to Senator Harkin, a leading proponent of LRSA, to support \$10 million in funding for LRSA in the current fiscal year, a commitment supported by the Bush Administration.

The bill that will be discussed today, S. 255, proposes to authorize \$10 million for LRSA in FY 1989—for which funds would remain to be appropriated, and would authorize additional funding in fiscal years 1990 and 1991. Like the legislation reported by the Commerce Committee during the 100th Congress, S. 255 would increase the non-Federal match required for the receipt of Federal funds from 30 percent to 40 percent.

This afternoon's hearing will supplement the record on LRSA developed by the Committee in a hearing held before the Surface Transportation Subcommittee in 1988. I look forward to testimony from the witnesses, including Senator Harkin, who has worked tirelessly on behalf of this program, as well as from State representatives and railroads who have either received or anticipated a need for LRSA support. Their assessments as to the need for continuation of this program, as well as the position of the Federal Railroad Administration, will be helpful to the Commit-

tee in evaluating our rail rehabilitation needs and considering reauthoriztion legislation.

Senator EXON. We will hear from Senator Harkin first, in just a moment, who I indicated earlier is the primary sponsor of this bill. As I also indicated earlier, that bill is co-sponsored by myself and others. Then we will hear from Mark Lindsey, the Chief Counsel of the Federal Railroad Administration, Horace Edwards, Chairman of the National Conference of State Railway Officials, and a panel representing regional and short line railroads.

I am very pleased to call my distinguished colleague, Senator Harkin of Iowa, at this time. Senator Harkin, thank you for making this a reality once again.

You know, we worked very hard to try and get this taken care of last year. Basically because it was very substantially opposed by the previous Office of Management and Budget, we failed. We are back at it this year. I thank you for your leadership in this area and I am very pleased to recognize you at this time for any comments that you have on this matter.

[The bill follows:]

101ST CONGRESS
1ST SESSION

S. 255

To authorize appropriations for the Local Rail Service Assistance Program.

IN THE SENATE OF THE UNITED STATES

JANUARY 25 (legislative day, JANUARY 3), 1989

Mr. HARKIN (for himself, Mr. EXÓN, Mr. PRESSLER, Mr. BURDICK, Mr. COCHRAN, Mr. ROCKEFELLER, Mr. SIMON, Mr. BUMPERS, Mr. GRASSLEY, and Mr. D'AMATO) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

A BILL

To authorize appropriations for the Local Rail Service Assistance Program.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Local Rail Service Assist-
4 ance Reauthorization Act of 1989".

5 SEC. 2. (a) The second sentence of subsection (q) of sec-
6 tion 5 of the Department of Transportation Act (49 App.
7 U.S.C. 1654(q)) is amended—

8 (1) by striking "and" immediately after "1987,";

9 (2) by striking the period at the end and inserting
10 in lieu thereof a comma; and

1 (3) by adding at the end the following: "not to
2 exceed \$10,000,000 for the fiscal year ending Septem-
3 ber 30, 1989, not to exceed \$25,000,000 for the fiscal
4 year ending September 30, 1990, and not to exceed
5 \$25,000,000 for the fiscal year ending September 30,
6 1991".

7 (b) The last sentence of such subsection (q) is amended
8 by striking "1988" and inserting in lieu thereof "1991".

9 SEC. 3. Section 5(g) of the Department of Transporta-
10 tion Act (49 App. U.S.C. 1654(g)) is amended by striking
11 "70 per centum" and inserting in lieu thereof "60 per
12 centum".

STATEMENT OF HON. TOM HARKIN, U.S. SENATOR FROM IOWA

Senator HARKIN. Mr. Chairman, thank you very much for this opportunity. I also want to thank you for your leadership from your position on this Committee and your position in the Senate on this very vital issue of local rail service assistance.

I was just listening to your remarks and I want you to know I agree with them 100 percent. Everything you said that applies to Nebraska applies in Iowa and I am sure in every other rural state. LRSA has been a very important program. Unfortunately, it hasn't been talked about a lot.

I do not know why it seems that in government, we find things that work and discontinue them. The things that do not work just continue to go on year after year, decade after decade. LRSA is one program that has worked. It has proven its worth.

Mr. Chairman, S. 255, which I introduced—and you are the lead co-sponsor on it along with Senators Pressler, Burdick, Cochran, Rockefeller, Simon, Bumpers, Grassley, D'Amato, and Daschle, enjoys bipartisan support. This bill seeks to reauthorize the Local Rail Service Administration Assistance Program.

The bill provides a level of \$10 million for the current year and \$25 million in the next two coming fiscal years. As I said, it has definite bipartisan support. Similar legislation, was introduced last year and was reported by the Commerce Committee. But as you pointed out, because of OMB, it never really got to the floor. Had we gotten to the floor, I am sure we would have had the votes to have passed it.

Mr. Chairman, LRSA as we have come to know it provides a low level of financial assistance to all states for use in matters they consider appropriate for rail freight support. Most of the funds are allocated to specific rail rehab projects. In a relatively small number of cases it is used for acquisition of tracks for a new short line railroad to avoid abandonment.

LRSA has been responsible for rehabilitating thousands of miles of freight track and it has allowed for the handling of larger cars at higher speeds. It has reopened scores of critical branch lines, has newly created short line companies and provided for the movement of many thousands of carloads of freight that otherwise would have had to be carried in smaller, less efficient and more costly truckloads.

Without railroad branch lines, farmers have to move their grain by truck, which is more costly. Small coal companies and small manufacturers have to do the same thing. In addition to the higher cost to business, the government also pays a higher cost. For every 100 railroad cars filled with corn that we take out of commission, our deteriorating roads will have to support 387 more trucks.

Some say that if a rail line is not profitable it will be abandoned and if it is profitable it will be maintained, but that simply is not true. A railroad may make money on a branch line, but it may not be making as much of a profit as it could make somewhere else. A railroad may be in such poor financial shape that it cannot maintain its lines, thus allowing the rails to fall into disrepair and become more costly to use. Or, poor railroad management can

leave shippers without cars, forcing them to use trucks which means there is less revenue earned on the branchline.

Economic systems are not perfect. The value of a branch line to local shippers may be so great that the shippers themselves may want to purchase the line if a railroad chooses to abandon it. But the shippers may not have the resources to put the deal together. The value of the line to grain elevators and farmers may be far more than the salvage value of the track and the land.

I would just like to call the Committee's attention to a report issued by the National Conference of State Railway Officials task force. The report documents classic LRSA cases where light density rail branch lines abandoned by the major companies have been reorganized as short lines. The short lines, equipped with new rolling stock, their tracks rehabilitated, successfully maintain the economic viability of major regions of their respective states.

This February 28, the FRA issued a report, basically on deferred maintenance of Class II and Class III railroads. It estimates that to meet the rehab needs of such railroads \$408 million beyond what the railroads could afford is necessary. According to the study, these railroads can meet only 24 percent of their rehab costs with internal funds.

I would also note that there are projects that need to be done on class I railroad track. Some class I railroads have major financial limitations and have considerable trackage in very poor condition.

As you know Mr. Chairman, the more it costs industry to move goods, the less competitive we are as a Nation. In my own state of Iowa, the Grain and Feed Association figures that farmers can increase their profit margin 3 to 12 cents per bushel when they ship by rail instead of truck. Now, handling high volume bulk agricultural products on branchlines is not easy. When the jumbo 100 ton hoppers were introduced, most light duty branchlines were inadequate to handle the loads. To compound the problem, unit train shipments of 25 to 50 cars have become popular and these heavy trainloads place much greater stress on tracks than general train operations.

But, Mr. Chairman, lower product cost and greater competitiveness of rail shippers are directly related to the condition of track maintenance. LRSA rail maintenance has allowed increased operating speeds, reduced derailments, and permitted heavier carloads. These are attributes that shippers can directly translate into fewer cars, shipments that arrive more quickly, and of course, lower costs.

The bill I introduced, Mr. Chairman, provides a modest \$60 million over three years. The funds being authorized by this legislation will find many worthy projects. With proper administration the funds can really be leveraged to make a big difference.

Just to give you an example of what we did in Iowa, and I know you did it in Nebraska too, LRSA leveraged rehabilitation efforts and the State of Iowa provided for matching funds. In many cases, I think in Iowa over 14 years, \$25 million in funds from LRSA has been matched with \$22 million in state funds, \$33 million in shipper funds and \$41 million in railroad funds, for a total of \$121 million in rehabilitation. That is a four to one match Federal involvement.

Most recently \$900,000 was provided for the rehabilitation of track in a certain area of Iowa. Those funds were matched by an equal amount from the state and then the railroads matched that combination with \$2.7 million, for a total of \$4.5 million from a \$900,000 grant from this program to the State of Iowa.

So it is a program that really works. It provides important leverage. We get a lot of bang for the buck. Over 1,200 miles of track in Iowa are in use today that we rehabilitated under this program. A large part of that track would have been abandoned without it.

As I said, Mr. Chairman, not only does an efficient rail system increase the profits to the elevators, the shippers, the farmers, it also saves the government money. For every 100 cars that we are not shipping on, it would take 387 trucks. You know what our highways are getting like out there. They are deteriorating very rapidly.

Now lastly, Mr. Chairman, I would just note that Secretary Skinner has indicated that the Administration would request a supplemental appropriation this year of \$10 million for fiscal year 1989 if this program is authorized, so we have the Administration on record as saying that they will ask for the money. They will support the money for this year. All we need is the authorization.

Mr. Chairman, again, I thank you for making this a part of your hearing and for your leadership and your interest in this issue. LRSA is a great program. It is one that, hopefully, we can continue to operate, especially in the rural areas, for years to come.

Senator EXON. Senator Harkin, thank you very much. I have no questions. Do any other members have questions? Senator Pressler?

Senator PRESSLER. I have no questions. I just want to commend my colleague from Iowa and thank him again for his fight last spring, I believe it was, or whenever Congress was going out of session, to save some of the funds for some of our smaller railroads.

Senator HARKIN. I want to thank you, Senator Pressler for your leadership on this and your co-sponsorship. It is a fight that all of us, regardless of party, ought to be in for our rural areas. It is a good program.

Senator EXON. Thank you very much, Senator Harkin. I am very pleased to recognize our distinguished colleague from the State of Kansas, Senator Kassebaum, for remarks that she has and as I understand it, she may want to introduce somebody from Kansas.

As you may know, Mrs. Kassebaum was a very important member of our Commerce Committee until she chose, in this session, to leave us to take an important assignment elsewhere in the Senate. Welcome back, Senator Kassebaum. We are glad to have you. Please proceed in any fashion that you like.

STATEMENT OF HON. NANCY L. KASSEBAUM, U.S. SENATOR FROM KANSAS

Senator KASSEBAUM. Thank you very much, Mr. Chairman. I have left the Committee in good hands, however, and I very much appreciate the opportunity to come speak for just a moment.

On the Local Rail Service Assistance Program, we have already heard about the importance to Iowa, you certainly know the impor-

tance to Nebraska. Senator Pressler knows well the importance to South Dakota and I do to Kansas and I think all of us who share concerns about the potential hardships that can come from abandonment and the loss of, for various reasons, regional rail service, have to worry and must speak out on this very important issue.

An example in the State of Kansas I think provides a good illustration, just as we can all use our own states as an example and Senator Harkin gave examples that I could repeat in Kansas, of the direct impact on the farming community, particularly on wheat and corn growers where they ship 75 percent to 50 percent respectively, of their crops by rail.

With the changes that are occurring in the rail transportation system we need the opportunity to have some time to address the rapidly changing atmosphere regarding rail transportation. My concern, Mr. Chairman, is that many states that have a real need for these funds are being underfunded in the appropriation process.

I would ask the Committee to consider whether a formula basis rather than a discretionary basis for distributing the funds available under the LRSA program would provide a fairer, more equitable approach to assisting the rehabilitation of regional rail lines across the country.

I cannot think of an issue in which really, in many ways, our states are more directly involved or affected right now and I welcome the opportunity to share my concerns about it. You have many expert witnesses who are going to be offering advice far better than I can, other than my sincere and concerned interest in this issue.

Mr. Chairman, I want to thank you for holding this hearing today. The Local Rail Service Assistance Program is an important program which affects regional rail lines across the country, and which has a very real impact on the communities that rely on local rail service for continued economic development.

As you know, Kansas, as well as Nebraska and other midwestern states, faces certain hardships from the decline in regional rail service. This decline is due, in part, to a lack of resources for rail line rehabilitation and maintenance. While other factors figure into this equation of shortline deterioration, such as the question of competitiveness for large railroads that provide local service, I am concerned that local rail capital needs for rehabilitation and acquisition have not been met by a program originally designed for this purpose.

The example of the State of Kansas provides a good illustration of the problem this presents. Despite its twelve-year participation in the LRSA program, Kansas is currently facing the loss of some 600 miles of rail track due to local rail abandonments. Kansas transportation officials estimate that, based on the volume of freight being carried by rail lines in the state and the operating costs of the railroads, future rail losses in Kansas come close to 3,000 miles of service by main lines and branch lines. This equates to more than 40 per cent of total rail miles in the state.

This situation has a direct impact on the farming community in Kansas, particularly on the wheat and corn growers, who ship 75 per cent and 50 per cent, respectively, of their crops by rail. Given the dependency of wheat movement and pricing on rail service,

which generally provides cheaper service than truck transportation, the question of whether or not to reauthorize the LRSA is an important one to me and to many Kansans.

It is important to point out that Kansas has not received the level of funds they have requested through the LRSA program, and I don't believe that this shortfall in funding is unique to Kansas. Given that this is not due to a lack of requests for assistance from the state, I would ask that as this committee reviews the need for the LRSA program, and considers the legislation which has been introduced to reauthorize appropriations for the program, that the committee also explore the need basis on which funds have been apportioned in past years.

My concern, Mr. Chairman, is that many states that have a real need for these funds are being underfunded in the appropriations process. I would ask the committee to consider whether a formula basis, rather than a discretionary basis for distributing the funds available under the LRSA program, would provide a fairer, more equitable approach to assisting the rehabilitation of regional rail lines across the country.

And now, Mr. Chairman, I would like to say a few words about one of the witnesses appearing before the committee today. Mr. Horace Edwards, who is here today representing the American Association of State Highway and Transportation Officials (AASHTO), is a fellow Kansan. As the Secretary of the Kansas Department of Transportation, he is well-positioned to understand the importance of this vital rail assistance program, both for Kansas and for transportation systems across the country. With his background in transportation and commerce, within several areas of the country, and his position on the Policy Committee of AASHTO, he can provide a good perspective on the benefits of LRSA for many types of communities around the country, both small and large.

Having had the pleasure of working with Secretary Edwards on many transportation issues in Kansas, and having had the opportunity to briefly review his testimony for today's hearing, I am pleased to be able to defer to his expertise on this issue. I am also concerned for what appears to be a strong interest in the transportation community to preserve this important program.

Thank you, Mr. Chairman.

I would just like to close, Mr. Chairman, in saying that I would like to do all I can to assist you to provide a legislative formula that is going to be equitable, that will be fair, that will assist us in meeting the dramatic changes that I believe will be taking place in regional rail service.

Thank you very much.

Senator EXON. Thank you very much, Senator Kassebaum. In just a few moments I will be calling on your fellow Kansan to come forth with the next panel and also he will be accompanied by Mr. Mark Lindsey, the Chief Counsel for the Federal Railroad Administration.

You will be delighted to know that Mr. Lindsey appeared before us earlier today in connection with an Amtrak reauthorization proposal and he announced at that time that this Administration was taking a considerably different posture than the last Administra-

tion. They are ready to work with us on something on Amtrak and Senator Harkin has indicated that they are taking about the same position with regard to the legislation that you are talking about.

Indeed, as I told him, it looks like we are having a kinder, gentler Administration on things that you and I have worked on for a long time. Thank you for your help and support on this and thanks for coming today.

Senator KASSEBAUM. Thank you, Mr. Chairman.

Senator EXON. I am very pleased now to welcome an opening statement by my hardworking friend and colleague that I have been pleased to work with for a long, long time on this panel, Senator Pressler.

OPENING STATEMENT BY SENATOR PRESSLER

Senator PRESSLER. Thank you, Mr. Chairman, and I want to commend you for your leadership. I might say that it is very important to us in the Midwest to have a Nebraskan chairing this subcommittee, and particularly the type of leadership you have given it and that is important to my state and it is important to Nebraska.

My state, like Nebraska and other states, has much at stake considering the importance of railroad transportation to agricultural shippers. Today's hearing focuses on a program that has been proven useful to the long-term preservation of this transportation network.

The capital assistance available through the LRSA program means revitalizations and preservations of the small communities along rail lines. These rail lines are the lifeblood that sustains economic activity in many of these areas.

I am pleased to welcome a South Dakotan who will testify at today's hearings about the importance of the LRSA program. Lynn Anderson is a vice president with the Dakota, Minnesota and Eastern Railroad headquartered in Brookings, South Dakota. The history of this venture is a story worth telling and I am proud to say that I have had a role in the railroad's success.

The Chicago and Northwestern Railroad attempted to abandon this track, which runs through the center of my state. The DM&E was born out of necessity, because maintenance costs on the line were prohibitive for the Chicago and Northwestern. The regional railroad movement has spread throughout the Nation for these very reasons.

Today, the DM&E operates on track in South Dakota and Minnesota and also reaches into Iowa and North Dakota. Over 100 communities along this line are thankful this line has been preserved. Over 200 customers still have a rail option for transporting their products and over 100 railroad employees still have jobs.

The key to the DM&E's and regional railroads' future is rehabilitation, required by years of deferred maintenance. The LRSA is an important resource that should continue to be available.

Earlier, I commended my colleague from Iowa, Senator Harkin, for his tremendous leadership in keeping the LRSA program alive and also Senator Exon's leadership and again, the Chairman of our subcommittee plays an important role in the effort to preserve LRSA funding.

The State Director of the Division of Railroads, Chris Randall, testified before this subcommittee last year. He continues to be a leader on this issue.

I look forward to all of the witnesses. I have some additional remarks. I would conclude by saying that I think the short line railroad movement is one of the most exciting things that is happening in the United States. I hope the big railroads never become predators because they have an interest in getting the traffic fed into them and I hope that all of us will take policies and take steps that will expand the short line railroads.

It is the only hope states such as South Dakota have and our short line railroads are doing a good job, but to the farmers and small businessmen and laborers and workers, if it were not for these short line railroads and for the improvements that can be carried out through the LRSA funding, all of these products would be moving in trucks on our highways, breaking up our highways and hurting them.

So Mr. Chairman, I look forward to the various witnesses today and look forward to working with you vigorously on the legislation.

Senator EXON. Thank you very much, Senator Pressler. We will now move ahead to our first two witnesses. I wish to call back Mr. Mark Lindsey, the Chief Counsel for the Federal Railroad Administration, and Mr. Horace Edwards, Secretary of the Kansas Department of Transportation.

STATEMENT OF S. MARK LINDSEY, CHIEF COUNSEL, FEDERAL RAILROAD ADMINISTRATION, ACCOMPANIED BY JAMES McQUEEN, ASSOCIATE ADMINISTRATOR FOR PASSENGER AND FREIGHT SERVICES

Mr. LINDSEY. Thank you, Mr. Chairman. Once more, Jim McQueen is accompanying me and he is the Associate Administrator for Passenger and Freight Services and he administers the LRSA program, too.

Mr. Chairman, this afternoon we must oppose reauthorization of the LRSA. But, as Senator Harkin noted, we will also honor the agreement made by the Reagan Administration that, if the LRSA is reauthorized, we will support \$10 million to fund the program in fiscal year 1989. We are prepared to honor that agreement.

I am also instructed, however, to tell the Committee that if anything further is authorized, Secretary Skinner will recommend a veto.

It is the department's position that LRSA—

Senator EXON. I think it is fair to say that maybe we have a kinder, but not necessarily a gentler Administration.

Mr. LINDSEY. At least a firm one, Mr. Chairman.

We believe that LRSA is a good tool, but one that is not presently needed. The Department supports very strongly the development of short line and regional railroads and we believe they are very, very important to the economy of the Nation, and to the health of our railroad system. They are certainly something that we should support as needed. Frankly, we think the LRSA has been well used in the past.

We are very pleased with what we at the Department have done with the program that you gave us. Over the years, we have provided over \$496 million in assistance to 49 states and it has, indeed, helped a lot of railroads in a lot of communities. We think that is all very positive.

Nonetheless, at present, we do not believe this tool is needed. It was created back in 1973 basically as a stop-gap. At that time, we were confronting seven bankruptcies in the Northeast and LRSA was created as a stop-gap to help the 18 states that were affected by those bankruptcies overcome the problems confronting them while other solutions were created.

It has been modified along the way to fit changing conditions quite flexibly, and I think used effectively. But in that time, other measures have come on stream that we think are also effective, most notably the passage of the Staggers Act which substantially deregulated the railroad industry and with it the substantial return of the railroad industry to financial health, using the freedoms provided by the Staggers Act.

Since the passage of Staggers, abandonments are very sharply down. Since 1982, for example, miles of abandonments have dropped from more than 5,000 miles annually to just a little more than 2,000 miles. That is an awfully substantial drop.

The major railroads have still, however, been spinning off lines. Lines that otherwise might have been abandoned have been sold to short line and regional carriers, but largely without acquisition assistance from LRSA.

They have been privately funded. They have been funded with shipper assistance. Some of the selling carriers have provided financial assistance. There is a substantial net of assistance out there, now, that replaces what the stop-gap LRSA was initially intended to do.

We believe at present, that is adequate. There are 20 states that this year are providing \$94 million in assistance. That is very, very substantial. That was not in existence at the time the LRSA was passed.

We recently, at Congress's direction, did an infrastructure study on the Class II and Class III railroads of America to see what their rehabilitation needs were and the results of that study are, by and large, very encouraging.

Eighty percent of the railroads surveyed said that they either had no rehabilitation needs at all, or that their needs were such that they could pay for them from internally-generated funds. That is very substantial.

Breaking that down, railroads carrying 55 percent of the traffic, 55 percent of the carloads, said that they had no present rehabilitation needs and 30 percent said that they had some rehabilitation needs, but that they could fund them from internally-generated funds.

Now, the needs that we are talking about here—the rehabilitation needs—are the estimated cost of a one-shot attempt to bring the railroad into shape to operate at timetable speeds without any slow orders. We had a little bit of trouble defining just what deferred maintenance meant and so we came to the definition I just recited and asked the railroads to apply it. Now of course, that

work would not all be done at one time. It would normally be done over a number of years.

The remaining railroads, that Senator Harkin referred to earlier which have some difficulty funding their needs, carry some 15 percent of the traffic. They are able, they tell us, to fund with internally-generated funds about 25 percent of their needs.

That would mean, given the amounts they tell us, that the ones who responded to the survey would need about \$450 million from sources outside themselves to cover all their needs. Extrapolating that to cover the railroads that did not answer the survey, the total need on a one-shot basis would be about \$600 million.

Now, the \$94 million a year that those state programs that I referred to are providing would very substantially meet that need, but there are other sources out there beyond those state programs, too.

We think the survey ends up showing that we do not have facts on the table demonstrating that there is a compelling need for LRSA funding, right now. It has been a good tool in the past, but the facts just do not seem to support that we need that money out there now, because funding is available from other places. We believe that the Federal Government should be the funder of last resort in this kind of circumstance.

Principally, now, we think that the hazards to the survival and continued formation of short line railroads and regional railroads really not have that much to do with the kind of assistance funding LRSA provides.

Rather, it has to do, first, with whether or not regulatory freedoms provided under the Staggers Act continue to be available so that the general railroad system continues in good health, and, second with the outcome of the P&LE cases presently before the Supreme Court. Those cases pertain more to formation of new lines than to the survival of old ones and they are very important for the formation of new lines.

In sum, Mr. Chairman, we believe it has been a good tool but that funding now is unnecessary. Thank you.

[The statement follows:]

TESTIMONY OF S. MARK LINDSEY
CHIEF COUNSEL
FEDERAL RAILROAD ADMINISTRATION
BEFORE THE SENATE COMMITTEE ON COMMERCE,
SCIENCE AND TRANSPORTATION
SUBCOMMITTEE ON SURFACE TRANSPORTATION
April 6, 1989

The Administration opposes reauthorization of the Local Rail Service Assistance (LRSA) Program for the same policy reasons that led the previous Administration to oppose LRSA funding in the past six years.

The LRSA Program was a byproduct of the financial crisis that afflicted American railroads in the 1970's. It was established by the Regional Rail Reorganization Act of 1973 as a regional two-year program of financial assistance to provide local communities sufficient time to adjust to the loss of major carrier rail service following the bankruptcy of Penn Central and several smaller regional carriers. Only 18 states in the Northeast and Midwest were originally eligible for assistance. As the railroad financial crisis peaked with the bankruptcy of the Milwaukee and Rock Island Railroads, the program was expanded nationally making every state, except Hawaii, eligible for assistance.

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LRSA was never intended to be a solution to those bankruptcy-related problems, or others to which it has been creatively applied. It was intended as a stop-gap measure to hold an over-regulated railroad system together in a crisis while viable long-term solutions were pursued in Congress and elsewhere. The railroad industry today is far different than it was before 1980.

FRA is extremely proud of the accomplishments under the LRSA Program. Since 1976, the LRSA Program has provided planning assistance to 49 states and the District of Columbia and project funding to 47 states. Over \$496 million has been granted to date. States have very effectively used LRSA funding to preserve essential rail service to many communities by rehabilitating thousands of miles of track. Some states have purchased lines. Many states have taken advantage of the Program's flexibility by pursuing low cost options, such as rail connections, in lieu of major rehabilitation projects. A few states have even selected non-rail alternatives less expensive than continuing rail service, such as relocating single shippers or increasing the capacity of local roads.

Notwithstanding the success of the LRSA Program, the concerns which led to its creation are being addressed outside of LRSA. States are creating their own programs to deal with the preservation of essential freight service. Perhaps even more important have been the changes in the railroad industry brought about by regulatory reform under the Staggers Act of 1980.

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Many states have established their own independently funded rail freight assistance programs. Currently, 20 states have active financial assistance programs. Approximately \$94 million is available under these programs through 1989. States without funding programs provide technical assistance to shippers and local communities. Nine states have used their LRSA funding as a base for financing future projects by loaning the funds to railroads instead of granting them.

Since the early 1970's, when the LRSA Program was established, the Staggers Act and other regulatory reforms have greatly improved the financial condition of our nation's railroads. The industry's return on investment has doubled in the years following the Staggers Act. Major carriers are continuing to restructure and streamline their systems, but they no longer rely exclusively on the abandonment process. They are actively working to preserve rail service on light density lines through sales to shortline and regional railroads which can operate the lines more efficiently and profitably.

At the moment, this rationalization process is clouded by the PL&E cases now before the Supreme Court. If the Third Circuit Opinions are sustained in certain ways, major carriers will once again have more incentive to abandon lines in most cases than to sell them to shortline or regional carriers. We do not believe that result will obtain or would be in the public interest.

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From January 1, 1981, through July 1, 1988, close to 200 new small railroads were established, all but a handful of them from track formerly operated by the major carriers. The explosion in the number of shortline and regional railroads, when LRSA funding has been at its lowest level, demonstrates the move away from abandonments and job disruption to continued service and job preservation. It also demonstrates the availability of private-sector financing for the acquisition of light density rail lines.

FRA's recent Report to Congress, "Deferred Maintenance and Delayed Capital Improvements on Class II and Class III Railroads," found that 55 percent of the 1987 shortline and regional railroad traffic was handled by carriers which require no additional rehabilitation to eliminate deferred maintenance. Another 30 percent of the carloads were handled by railroads reporting no track rehabilitation needs beyond those which can be covered with internal funds. While the remaining 15 percent of the traffic is carried by small railroads that require external financing to eliminate deferred maintenance, we believe these needs can be met with private-sector financing and State funding.

The LRSA Program provided the transitional assistance for which it was established. It demonstrated the validity of the feeder line concept and established that regional railroads and shortlines could succeed as feeders to the trunk rail system. Now, states, selling railroads, and private-sector financiers have stepped forward to continue the process. In light of this success,

coupled with the need to reduce Federal spending, there is no compelling need to continue the LRSA Program.

Last year, the Reagan Administration agreed to support an FY 1989 transfer of \$10 million to LRSA if the Program were reauthorized. While this Administration is opposed to the LRSA Program, we will honor that agreement. However, the Secretary will recommend veto of any authorization of appropriations in excess of this amount.

Senator EXON. Thank you very much, Mr. Lindsey. We may have some questions later on.

I am pleased to recognize you now, Mr. Edwards and I would start out by saying that we appreciate very much your being here. Your full statement will be incorporated into the record and in the interest of time we would like to ask you to please summarize.

STATEMENT OF HORACE B. EDWARDS, SECRETARY, KANSAS DEPARTMENT OF TRANSPORTATION AND CHAIRMAN OF THE NATIONAL CONFERENCE OF STATE RAILWAY OFFICIALS OF THE AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS, ACCOMPANIED BY DON BAKER, EXECUTIVE DIRECTOR, WEST VIRGINIA RAILROAD MAINTENANCE AUTHORITY AND MEMBER OF THE AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

Mr. EDWARDS. Thank you, Mr. Chairman. I am pleased to be here to make some brief comments. I am accompanied today by Mr. Don Baker, who is the executive director of the West Virginia Railroad Maintenance Authority and is a fellow member in the American Society of Transportation Officials.

As has been stated earlier, I am Secretary for the Department of Transportation for Kansas, but today I will suppress my desire and need to speak about the needs in Kansas and speak for the American Association.

I am a little at a loss to understand some of what I have just heard, having just finished looking again at the deferred maintenance and delayed capital improvements report to Congress by FRA, because the rather smooth progress of the evolution of rail transportation in this country was indeed unavoidably interrupted by the Congress when the Congress wisely permitted the railroads of this country to reorganize themselves to rationalize their operation so that they in fact could be healthier for the good of the railroads and for the good of the country.

That rearrangement again resulted in dislocations and transitional problems to communities, especially in those states that are less populous than some others. This resulted, of course, in hardship to a large segment of the population.

The Local Rail Service Assistance, as has been stated before—and I will not burden this Committee by a repetition of a great deal of that—as modest as that assistance has been, it has assisted

considerably in moderating the wrenching problems which were created by this reorganization of rail service in this country.

Mr. Lindsey has commented that there might be some support for the \$10 million of assistance in fiscal year 1989. That is an interesting number, especially if it is combined with, as I understand it, the \$25 million possibly in 1990 and somewhat more, subsequently. But that is in sharp contrast to the demonstrated need for several hundred million dollars, at the very least, for the combination of two things: the planning and project funding that attend local rail service assistance.

AASHTO therefore supports S. 255 and other measures for local rail assistance. Regardless of the study one uses, whether that is by AASHTO or whether it is that by FRA, the need for continued transitional support, for seed money for planning, for some structure within which private funds can be gotten for capital projects, that continues to exist.

The fact of the need having gone out of existence confounds me when it is asserted that that is so. There have been some 47 states who have applied for project funding and 49 states which have used the money constructively for planning. The need to rehabilitate substandard tracks, to decrease the number of derailments and to help regional railroads survive diminishes not at all.

If one wants to see practical examples in your state, Mr. Chairman—in Nebraska—and take a look at what truckers are doing because of a lack of balanced transportation systems, including rail, just recently completed, for example, I am reminded by hearing Mr. Lindsey of the summary dismissal of a case in your state where the truckers were seeking to increase as high as 95,000 pounds the amount of cargo that could be hauled.

They tried the same thing in Kansas and it did not work, because we would have lost Federal assistance. They are trying to make some sense out of being able to travel between Nebraska and Kansas and Oklahoma—which, of course, Oklahoma has a grandfather clause that permits the kinds of loads that tear up highways.

Part of that problem is attributable to the need for continued seed money, as modest as it is, to aid communities that do not have transportation, shippers that do not have proper transportation for their crops and the like.

I will not go any further with this, and conclude simply by saying that I have just been reminded in hearing the proceedings of the hearing before this and now this one itself, that there is a short book that has had great currency in popular literary circles in the last year or so.

It is Fulghum's book on "Everything I Needed to Know I Learned in Kindergarten" and it talks about not only washing before you eat and saying your prayers, and if you hurt somebody you say you are sorry, it also says you clean up your own mess.

Now, the Congress inadvertently made a mess when it let the railroads fix themselves and a part of cleaning up the mess is to provide local rail service assistance as a transitional crutch if need be.

Thank you.

Senator EXON. Thank you very much, Mr. Edwards, for your testimony.

Let me ask you this, Mr. Lindsey. In the list of LRSA accomplishments you discuss the planning assistance LRSA provided to 49 states and the District of Columbia. What do you consider to be the advantages of this uniform planning and the prospect for its continuation if LRSA funds are terminated after fiscal 1989?

Mr. LINDSEY. Well, let me address the latter first. We would certainly hope that states would continue to do rail planning within their states whether or not the Federal Government provides financial assistance for them to do so.

It is certainly an appropriate function for them to perform. We believe that they are able to do that fiscally and we would certainly hope that they would continue. It is certainly meritorious, I believe, that they do this.

Many of the entrepreneurs that need assistance to save rail lines need more local attention than they need national attention. Very often the lines involved are short ones, serving relatively few shippers. The issues involved are predominantly local ones. The attention devoted to them is better done at the state level than Federal level and I would certainly hope that the states would continue to provide it.

Senator EXON. Thank you. I have one other question for you with regard to the FRA deferred maintenance reports. Secretary Skinner's letter transmitting the report for deferred maintenance and delayed capital improvements on Class II and Class III railroads to the Congress stated that only 15 percent of the traffic on all small railroads is handled by railroads needing external funding to correct this deferred maintenance.

It appears that the report combines statistics of the old carriers—I mean, ones that have been there for a long time—with heavy carloading such as the urban switching and terminal carriers and steel railroads with the new carriers. The new carriers have acquired secondary trackage which was not in good condition and probably would have been abandoned by the Class I railroads who sold them.

If the largest railroads in terms of carloadings, those before 1970, the old railroads which needed no external funds, were excluded, would not this percentage of railroads needing external funding be a much larger percentage and more correctly reflect the magnitude of the transportation problem facing rural America?

I think you know what I am trying to get at. I mean, do you think that those figures, the way they were provided, were a fair assessment of the problems of rural America?

Mr. LINDSEY. I believe they were, Mr. Chairman. But it is the case also, as you state, that if, say, the railroads that were formed before 1970 were excluded, that the percentages would change. I do not believe it would be dramatic. We have not run them that way, to my knowledge. If you would like, we certainly can.

I have the sense also, though, that the railroads represented among those saying that either they have no rehabilitation needs or that they can fund them internally, also include quite a few railroads that have been formed since 1970, some of which are quite large.

I would also observe that among the railroads formed since 1980, many fewer of them were formed on lines that had the kinds of

problems that we saw in the 1970s, where there had been a downward spiral on the line for years because the Class I railroad had been unable to abandon the line unless it could demonstrate that it was uneconomic. Often, a railroad in that circumstance let traffic go off, let maintenance decline, moved employees off and the line had been in a downward spiral for many years, so that by the time it was finally sold it was not much of a line. Those lines certainly needed very heavy rehabilitation assistance.

Senator EXON. Mr. Edwards, you have heard Mr. Lindsey's answer to my question. What do you think as an on-scene, on-hands manager of these programs at the state level? If the Federal funds are not to be had which have been used as seed money, do you think the states will, or will have the facility to pick that up, as I think has been indicated by Mr. Lindsey's testimony?

Mr. EDWARDS. I think there will be a reluctance, a reluctance on private sources within the states to pick up the slack that would be left with the absence of the Federal seed money.

The culture of this country when there is a great need very much dictates that recognition of that need be made manifest by not only the pronouncements but the actions at the Federal level and I think that this is a demonstration of where it is essential that the Federal Government act for there to be a framework within which private folks will pick up whatever slack is left.

Senator EXON. Thank you. My time is up. Senator Pressler?

Senator PRESSLER. Let me follow up with a question first for Mr. Lindsey. Mr. Lindsey, considering the loss of the redeemable preference share program and the loan guarantee program and your recommendation to terminate LRSA, balanced with LRSA's prediction of \$600 million in rehabilitation need, is this a contradiction?

Mr. LINDSEY. I do not think so, Senator Pressler. As I mentioned, with states providing \$94 million a year in financial assistance by themselves, that alone would virtually take care of that need over half a dozen years.

There is also now a substantial opportunity for private sector funding from a variety of sources and perhaps, if the Federal Government were not stepping up to the plate, more states would look at their sisters and join the rolls of the 20 that are providing financial assistance.

Senator PRESSLER. Our State of South Dakota as a practical matter is not a rich state. We have a drought underway. We have had a decline in tourism because of some of the fires that occurred, although we hope that corrects itself this year. We have had a difficult time out there raising money in the state for the state legislature. Do you think this will get done if the Federal Government does not help out?

Mr. LINDSEY. We believe so, Senator.

Senator PRESSLER. How are we going to do it in South Dakota?

Mr. LINDSEY. I have to confess that I do not know South Dakota's budget and cannot tell you in the kind of detail that doubtless you could.

Senator PRESSLER. Well, as the Senator from South Dakota, I can assure you that we need this program. Our farmers and ranchers need it to move grain, it is about—we end up spending about 50 or 60 cents a bushel moving our grain and timber, moving out of the

Black Hills and other products moving in, machinery moving in. It is just critical, and I just do not think it is going to happen unless we have the LRSA.

Senator EXON. Thank you very much, Senator Pressler. I am about to recognize Senator D'Amato from New York, who has shown up for a statement, but—do you have any questions of this panel, Senator Burns?

Senator BURNS. No, thank you very much, Mr. Chairman.

Senator EXON. Thank you very much for coming in.

I am very pleased at this time to call forward for a statement or any comments that he might have the Senator from New York, Senator D'Amato. Welcome, Senator D' Amato.

STATEMENT OF HON. ALFONSE M. D'AMATO, U.S. SENATOR FROM NEW YORK

Senator D'AMATO. Thank you very much, Mr. Chairman. Mr. Chairman, in the interests of time, I am going to ask that my statement in support of 255, which I am an original co-sponsor be introduced and placed in the record.

Mr. Chairman: It is a pleasure to be here today to offer my wholehearted endorsement of S. 255, legislation introduced by my distinguished colleague from Iowa. I am proud to be an original co-sponsor of this bill.

S. 255 reauthorizes the Local Rail Service Assistance (LRSA) Program. Providing \$10 million in funding during the current year and \$25 million in funding for each of the next two years. The \$10 million in supplemental funding was requested in this year's presidential budget and has been endorsed by Secretary Skinner.

The Local Rail Service Assistance Program was created in 1973. In my opinion, it should not have been allowed to lapse, especially when the needs of the communities and small rail lines it serves remain so enormous.

The LRSA Program has assisted the rehabilitation and purchase of branch lines in 47 states which otherwise would have been abandoned, forcing the reliance on far more expensive truck transport for the movement of raw materials, agricultural products and bulky manufactured goods. Without rail service, many businesses can not operate economically and would be forced to close. This, of course, devastates the economies of the small communities served by these branch lines.

LRSA-funded rail maintenance has allowed increased operating speeds and has reduced derailments. It has also made possible heavier car loads. These efficiencies are directly translated into fewer cars, shipments that arrive more quickly and, of course, lower product costs.

This is a program that has worked in the past, and which can work in the future. At a time when the American Association of State and Highway Transportation officials has identified a need for \$1.3 billion in rail maintenance work in this country, the Local Rail Service Assistance Program—which has been used to leverage four times its own funding in state, local and private funds—should be reauthorized.

I know that I am in a room of friends here since so many members of this committee have cosponsored S. 255, and I look forward to an early passage of this legislation so that we can provide the first \$10 million installment in this year's supplemental appropriations bill.

Thank you, Mr. Chairman, for affording me the opportunity to present this testimony.

Let me also commend you, Mr. Chairman, for holding this hearing and hopefully fast tracking this legislation. As I have been given to understand, our staffs have worked together with yours and Senator Pressler's, and I am appreciative of the opportunity to make a statement in support of this legislation.

Mr. Chairman, if I might, sometimes we tend to think of rural America or the small communities of America in areas like the Dakotas and Nebraska and the state of New York, for example, is made up of many, many, many of those same communities. It serves many of the same kinds of constituents.

As a matter of fact, if I might depart from the script and say that in terms of agricultural production, we are the third leading agricultural state in the nation with about \$4 billion agri-industry and in area after we rank first, second or third, I believe we are third in dairy, second in grapes, first or second in apples back and forth. Many people do not understand that we, too, Mr. Chairman, as I heard you comment have on many of the needs in our small towns.

I would like to personally talk about one of these local rail situations. It is the Rochester and Southern. It is a hundred mile long railroad serving the Rochester, New York area and hamlets outside of the larger metropolis of Rochester. It is a critical transportation link for the entire western New York region serving 39 major users representing tens and tens of thousands of jobs, jobs which are placed in jeopardy without the continuation of this services.

It includes Kodak and General Motors plants in Rochester and smaller plants throughout the western area of our state. This railroad is vital to the economic future of our state and to these communities.

Now, ironically, Mr. Chairman, the speed of the trains on this line was 50 miles an hour half a century ago. Today in the age of supersonic travel the safe speed for trains on the line has dropped to ten miles per hour.

The current owners of the Rochester and Southern have suffered nearly \$2 million in derailment losses, and that is trains traveling at ten miles an hour since 1987, making the line nearly uninsurable.

Now, there is a partnership, and there is a partnership that can help the private-public sector rehabilitate this line. New York State has pledged some \$4 million which will be added to our state budget for this project and \$2 million that would come in federal funds is available.

Once it is reauthorized, once this legislation is reauthorized, Rochester and Southern could make a safe and profitable line once again, and a straight-line rehabilitation project and others that will be funded, I am certain, throughout the country if we have this

kind of a program will pay great dividends to our economic security and the competitiveness of these companies and the competitiveness that we need to compete internationally.

So, Mr. Chairman, I thank you for the opportunity of just presenting one illustration of a railroad line in the state of New York, and I am sure that there are many others that desperately needs this kind of infusion that makes possible that state-federal-local participation, and I stand ready to work with this committee and with you and the members of the committee in seeing to it that we pass this legislation and hopefully convince the people at OMB of the follies of their way.

If the threatened veto that I have heard about were to take place if the program is authorized for more than one year at \$10 million, I think that would be a sad mistake. This is a necessary investment in the infrastructure, the badly neglected infrastructure of America. Thank you, Mr. Chairman.

Senator EXON. Thank you very much, Senator D'Amato. I cannot tell you how much we appreciate your pledge of support on this particular measure and indeed your testimony today indicates that this is a program more of interest to the whole country and not just a few states in the Midwest.

Are there any questions of my colleague?

Senator PRESSLER. Mr. Chairman, I want to commend the Senator from New York and say that I find the same problems that exist in my state exist in his state, and he has been very helpful. He has visited South Dakota, but the airline deregulation problems are the same in Upstate New York as they are in Montana and South Dakota and North Dakota.

The telephone, the long-distance rate for smaller cities and towns are the same in his state as they are in our states. The bus deregulation has probably had the same impact in Upstate New York as it has had in South Dakota. So, also railroads. There are common interests and on past occasions I have helped out regarding the city of New York and on many occasions the Senator from New York has helped my state out.

Senator D'Amato as the ranking member on the Transportation Appropriations Subcommittee and in a position of leadership there, I might ask you, Al, what do you think the chances are for a \$10 million supplemental for LRSA in fiscal year 1989 or any subject related to that?

Senator D'AMATO. I think they are excellent. I think with the authorization we deal with the problem more specifically that we run into on the House side because there has been a problem with respect to that, but I do think that we can make that \$10 million available.

Senator PRESSLER. Good. Well, we look forward to working with you and learning and being supportive. Thank you, Mr. Chairman.

Senator EXON. Thank you very much.

Senator Burns?

Senator BURNS. No questions, Mr. Chairman.

Senator EXON. Thank you, Senator D'Amato. We appreciate your coming over.

Now, the last panel of the day. We apologize for being relatively late in getting to you. Mr. Mortimer Fuller, Regional Railroads of

America and Mr. Lynn Anderson, Vice President of the Dakota, Minnesota and Eastern Railroad. Welcome, Mr. Fuller, and welcome, Mr. Anderson.

We will start, unless you have some other order that you would like to proceed, with Mortimer Fuller, who is the first man on the list. Welcome, Mr. Fuller.

STATEMENT OF MORTIMER FULLER, REGIONAL RAILROADS OF AMERICA, PRESIDENT, GENESSEE AND WYOMING INDUSTRIES, GREENWICH, CT

Mr. FULLER. Thank you very much, and thank you for the opportunity to appear today before you. I would ask that my prepared remarks be put in the record.

Senator EXON. Without objection, that is so ordered.

Mr. FULLER. I am here on behalf of the Regional Railroads of America, but I am President and Chief Executive Officer of Genessee and Wyoming Industries, a company with its beginnings in Upstate New York, but which now operates five railroads comprising over 900 miles in the states of New York, Pennsylvania and Louisiana. We serve over 200 shippers ranging from industrial giants such as Kodak, General Motors, and Gannett, to small businesses in rural areas.

All but 14 miles of our rail properties have been acquired since the passage of the Staggers Act. I am here today to strongly support the reorganization of LRSA and to share with the committee my thoughts as to why that program is so important to the continued growth of this nation's regional railroad industry.

If there is an LRSA program, one of our railroads, the Rochester and Southern, would be a candidate for LRSA funds. I would like to summarize my remarks by using the Rochester and Southern as a specific example to illustrate the compelling need for this program.

The Rochester and Southern is a former B&O line which we acquired from CSX in 1986. Although it employs only 40 people, it serves 39 shippers that provide over 85,000 jobs in the Rochester, New York area, and in the rural communities between Rochester and the Pennsylvania border.

As a CSX feeder line, the Rochester and Southern provides the only rail service in its market that is competitive to Conrail and in many instances the only rail service at all. Without the R&S, the cost of doing business would increase for the shippers and those increases would certainly impact the businesses' competitiveness and their employment levels.

The B&O was in the process of abandoning the line because of its remoteness to their core system and its declining traffic when changes in ICC regulation permitted the sale to the Rochester and Southern. This process of abandonment means essentially the deferral of track maintenance and declining service. R&S acquired the line in poor condition, which we knew, but deteriorating at a much faster rate than we or our engineering experts anticipated.

Although we have increased car loadings by 34 percent, we have incurred significant derailment expenses and have had to cut our operating speeds to ten miles an hour to avoid serious accidents.

This has had the effect of significantly increasing our operating costs and reducing our competitiveness on time-sensitive traffic.

While the line was acquired for less than its scrap value, it was a leveraged transaction, and we have exhausted our private sector funding alternatives. Therefore, without funding support from a program such as LRSA, we will have to make some hard decisions about the future of this line.

Why should this concern this Senate? First, the investment by the federal government of over \$7 billion in Conrail and \$1 billion in connection with the Rock Island and Milwaukee bankruptcies was focused on these properties and created a competitive disequilibrium in certain markets vis-a-vis carriers such as the B&O who were operating deteriorating systems but did not have the advantage of such funds. Investment of a small amount of federal funds can stabilize this competitive environment and prevent future more costly solutions.

Secondly, preservation of railroads provides a direct benefit to the federal budget deficit reduction. Railroads pay the cost of maintaining their roads. The more freight that moves by rail, the less damage to our highway system, which is estimated, I am told, to require \$315 billion of maintenance by the year 2000.

Thirdly, LRSA offers benefits far in excess of its costs and by any standard it is a very modest program.

And lastly, LRSA is a broad-based program. In our case it will include state and private sector funds in significantly greater amounts than LRSA funds. So, LRSA is simply closing the gap to complete a vital rehabilitation program of the rail network in western New York. Thank you.

[The statement follows:]

TESTIMONY OF MORTIMER B. FULLER, III
PRESIDENT AND CHIEF EXECUTIVE OFFICER OF
GENESEE AND WYOMING INDUSTRIES, INC.
BEFORE THE SUBCOMMITTEE ON SURFACE TRANSPORTATION OF THE
SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

APRIL 6, 1989

My name is Mortimer B. Fuller, III and I serve as President and Chief Executive Officer of Genesee and Wyoming Industries, Inc. (GWI). GWI is a holding company which, through its Genesee and Wyoming Railroad Company subsidiary, has been engaged in the small railroad business through continuity of ownership since its founding in 1899. Today the company owns five railroads, operating over 900 miles of track in New York, Pennsylvania and Louisiana, and employing 375 individuals. Together they serve over 200 shippers including General Motors, Ford Motor, Kodak, Texaco, Morton Salt, International Salt, Archer Daniels Midland, Cargill, Witco, Penzoil, Gannett and Cabot Corporation. The majority of our mileage has been acquired from large railroads since the passage of the 1980 Staggers Act.

I am here today to strongly support the reauthorization of the Local Rail Service Assistance program (LRSA), and to share with the Committee my thoughts as to why that program is so important to the continued growth of this nation's regional railroad industry.

Mr. Chairman, regional railroads such as mine are an economic response to fundamental and longterm changes in the railroad industry. They represent an effort to preserve light density lines that would otherwise be lost to the traditional restructuring solution of rail line abandonment. When successful, they preserve jobs, service and virtually irreplaceable investment. In many areas of the country, particularly rural areas, they provide the only transportation competition available to local shippers.

Success, however, is not guaranteed. These railroads start with relatively light traffic densities, the very reason the Class I is looking to rid itself of the asset in the first place. Due to the light density, the selling railroad had minimized capital improvements and maintenance expenditures, leaving the new owners with abnormally high operating expenses and costly rehabilitation requirements. The new owner's debt-to-equity ratio is very high

and terms of the acquisition loans are stiff due to the high risk involved. This requires a substantial cash flow for debt service. That cash flow can be significantly disrupted by a downturn in the economy, or even something as isolated as a single derailment, a period of adverse weather conditions or a plant relocation.

The rehabilitation difficulties facing these spin-off lines were recently highlighted by a Federal Railroad Administration report entitled, "Deferred Maintenance and Delayed Capital Improvements on Class II and Class III Railroads." According to the report, more than half of all the line mileage reported in the survey is at speeds of 25 MPH or less. Twenty percent of that total operates at speeds of 10 MPH or less. One third of the railroads responding to the survey had slow orders in effect on their operations. Approximately 45 percent of the rail is over 50 years old.

These numbers take on added significance when one considers that the study lumps the pre-1970 railroads and the post-deregulation railroads together. Older carriers appear to be in relatively fine shape. These are the shipper owned railroads, particularly of the steel companies, with a solid base of traffic which has kept them in business through the decades. If one removed those older lines from the survey, the picture would become even bleaker. As the report concludes,

"The trackage being acquired by today's small railroads is invariably secondary trackage. In the normal case, it has and was not compensatory for the large railroad that previously owned it. Major carriers are unlikely to make significant investments in track which does not produce compensatory returns, and by the time the trackage is sold it has often experienced a cycle of deferred maintenance dating back a half decade or more."

One of the reasons that the LRSA program has been so important to the development of the regional railroad phenomena is that it allows the new railroad to solve this deferred maintenance problem at startup. This provides two important benefits. First, by eliminating those track conditions that stand in the way of providing competitive service, rehabilitation allows the company to immediately reverse the declining traffic base that characterized the line prior to sale. Second, it allows the company to meet its debt service obligations which in these transactions are heavily front loaded.

I think it is important to emphasize that LRSA funds are not being requested to help us purchase these properties or provide operating subsidies. Those of us who have purchased regional railroads have already made a considerable, and in some cases

risky investment in an effort to turn around a money-losing line. We have generally borrowed as much as the collateral will allow. In the case of my own Rochester & Southern, we paid some \$4.8 million for the property and have already invested an additional \$3.1 million in the purchase of equipment and rehabilitation. The LRSA grant itself must be matched on a 70/30 basis. Even if we are beneficiaries of a LRSA grant, we anticipate returning the majority of our earnings for the foreseeable future into needed track projects. The LRSA program is but a piece of a much larger private sector effort aimed at turning around these money-losing lines.

I appear before you today fully cognizant of the demands on the federal budget and the need to target federal resources where they will do the most good. I believe the LRSA program is not only fully justifiable in light of other federal transportation expenditures, but will prove to be an excellent investment.

As you are certainly aware, the federal government provides massive subsidies to the railroads' competitors, trucks and barges. It is estimated by the Federal Highway Administration for instance, that to maintain current overall highway conditions on non-local roads through the year 2000 will cost \$315 billion, or \$19.7 billion a year. The estimated cost to bring all deficient bridges up to current standards is \$51.4 billion. Truck user fees will not even begin to cover their fair share of this cost. By subsidizing the trucker's highway use, the federal government puts railroads at a competitive disadvantage from the start.

The LRSA program not only addresses this inequity, but does so in a way that produces financial advantages for the highway program itself. Truck traffic does a disproportionate share of damage to the nation's highways. The successful regional railroads are taking traffic off the highways, and that reduces highway damage and the cost to repair that damage. Alternatively, if these lines fail, it is likely their current traffic will be dumped on the highway, increasing even further road repair costs.

The LRSA program also makes good sense from a larger economic point of view. As I indicated at the outset, the railroad industry has in the last two decades been undergoing a massive restructuring, prompted in part by the rail bankruptcies in the northeast and midwest. Unfortunately, one of the most important tools in a railroad restructuring is rail line abandonment, and that means a loss of jobs, a loss of service and a loss of competition.

Both the federal government and state governments have spoken clearly and forcefully about the need for continued rail service in this country. In the 1970's and early 80's some \$7 billion in federal funds were spent to create and support Conrail in the

northeast. In that same period some \$1 billion was spent to preserve service in the midwest.

While the abandonment of today's light density lines are not on the same scale as those associated with past bankruptcies, their impact within their own communities is exactly the same. The loss of the Rochester & Southern would mean immediate unemployment for 40 railroad workers. It would eliminate all rail service for most of R&S's shippers, and leave the remaining few to face the monopolistic potential of a single carrier.

Finally, the LRSA program has served as a magnet for attracting state funds to these new businesses. Nationally, the federal government has channeled \$485.5 million in rail funding through the states, \$353.8 of which was LRSA money. That amount has been supplemented by over \$1 billion in state contributions to state administered rail programs. This federal-state partnership has rehabilitated 13,158 miles of rail line. When one considers that an abandoned line is gone forever, the magnitude of this effort is truly impressive.

The LRSA program is an unpretentious one. Yet its effectiveness is not so much in the amount of money it provides. Rather, it is in the fact that it provides that money at the most critical stage of the new business venture, as well as leveraging significantly higher amounts of private and state monies into the business. In doing so, it allows the railroad to undertake the rehabilitation required to win back the traffic that will pay for its continued operation. It is a very cost efficient way for the federal government to avoid the tremendous cost of rail line abandonment.

I urge the Members of the Committee to support the reauthorization of this program.

Senator Exon. Thank you very much, Mr. Fuller.
Mr. Anderson, welcome. Please proceed.

**STATEMENT OF LYNN ANDERSON, VICE PRESIDENT, DAKOTA,
MINNESOTA AND EASTERN RAILROAD, BROOKINGS, SD**

Mr. ANDERSON. Thank you, Mr. Chairman, and members of the committee.

Perhaps I could give you a little bit of background about our company in addition to what Senator Pressler outlined as some of the facts and figures about our operation. I think our company can be used as somewhat of a case study for the LRSA program and for federal assistance of this type.

We began operation about two and a half years ago when we acquired 965 miles of trackage from the Chicago and Northwestern. We operate in four states in the upper Midwest, primarily Minnesota and South Dakota, and also Iowa and North Dakota.

When we started operation, we had 130 employees. We now have approximately 200, so our employment levels are up 50 percent from when we started. In the two and a half years we have been in business, we have handled over 100,000 carloads of freight. We serve over 100 communities on our line, about 90 percent of which we are the exclusive provider of rail transportation. We serve well over 200 active rail customers on our line.

One of the major problems we have had on our railroad is with the deferred maintenance we inherited when we purchased the property. The maintenance was deferred on our line, as it has been on a number of other new start-up regional and short line railroads, because the major Class I's could not afford to make the investment in the property primarily due to the low traffic densities on the line and also the high labor cost involved with the lines themselves.

Consequently, major portions of the Class I railroads were subject to abandonments. Two major portions of our railroad, in fact, 220 miles out of the 965 had actually been proposed for abandonment by the prior owner, the Chicago and Northwestern.

Rehabilitation of the tracks is critical if our company is going to succeed. The railroad industry, as I think we are all aware, is very capital-intensive. Regional railroads, such as ourselves, are very highly leveraged. We do not have unlimited access to funds, contrary, I think, to what the FRA was alluding to earlier. We paid about \$26.5 million for our property and we financed about \$25 million of that. In addition, we have committed to spend approximately \$20 million rehabilitating our main line.

If we are to continue to service our debt and to rehabilitate our line, we have to have additional business and revenue. We have to be more profitable in the way we operate. We have to get our costs down and become more efficient. We have to be able to provide cost-effective service to our customers to attract additional traffic.

The point I am making is that we had to borrow the money to purchase the line. We have borrowed money to rehabilitate major portions of the line. We are now out of collateral for further funds. We need some additional help, some seed money from programs like LRSA, to help continue this effort to rehabilitate additional trackage. Other rail carriers like us around the country also need similar help with funding.

We have been the recipient of LRSA funds in two locations on our property. We have a major rehabilitation project going in the state of Minnesota, which is a tri-party agreement between the Minnesota Department of Transportation, our shippers along the line, and the DM&E Railroad. Included as part of the funds for this project is a \$300,000 LRSA grant from the Minnesota Department of Transportation.

In the state of South Dakota we have what we consider to be a shining example of the benefits of the program we are talking about today. It is a 29-mile branch line between Redfield and Mansfield, South Dakota in the north central part of the state.

When we took over the line this track was in very poor condition. You could not fully load grain cars on this line. The speed was restricted to about five miles an hour, and we sustained a considerable number of derailments on the line.

As a result of working with the South Dakota Department of Transportation, we were able to secure a \$600,000 grant from the LRSA program. We matched that with \$600,000 of our own funds. We now have a line that will allow us to haul 100-ton fully loaded covered hopper cars of grain off the line. We can operate our trains at 25 miles an hour, and the service to the line is secure.

I was notified within the past week that one of the shippers along the line, who owns a small elevator, is going to be spending \$250,000 to upgrade his facility because of the commitment we made to provide rail service to him. This expansion is something that certainly would not have been done without good railroad service. This rehabilitation also allowed us to generate revenue for the railroad during the critical start-up period of our operation.

Federal policy for subsidies to railroads under this program, as I see it, makes sense for two basic reasons. First, it is a modest program. It provides a step towards equality when compared with the massive amounts of funds that are provided to our competitors, the truckers and the barge lines. Second, and more importantly, I believe, it makes economic sense. It preserves jobs as we have shown with our railroad. We have actually increased the employment on our line. It preserves competitive transportation for the shippers and it also helps put traffic on the national rail transportation which in turn strengthens the entire system nationwide.

In conclusion, from my perspective and from what I am seeing in the industry, the Class I's are going to continue to shed some of their light density lines. If it is not through line sales, it is going to be through abandonment proceedings.

The regional railroads are able to step in and pick up these sections of track and through a local marketing effort and a lower overall cost structure, perhaps be marginally profitable.

The financing for the initial purchases are available. There are funds for that, but the funding for the rehabilitation is very difficult to obtain. The LRSA program provides seed money to help get us over the hump to begin work on these rehabilitation projects. It has been successful in the past, as we have shown with our railroad, and we certainly urge its continuation. Thank you.

Senator EXON. Thank you very much.

I have a couple of questions. Let me start out with one for you, Mr. Fuller. There has been considerable restructuring of the rail industry over the past decade, through abandonments, line sales and formulation of regional and short-line railroads. You are very familiar with that, I know.

In light of the significant restructuring that has already occurred, do you believe that there will be a sufficient number of new carriers and acquisitions in the future to justify continued expenditure of the LRSA funds?

Mr. FULLER. Yes, I do. I think that we are in the very preliminary stage of a trend to restructure the rail industry. And I believe that the regional rail process will continue.

At the same time, I believe that if it does continue, and there is legal environment which permits it to continue, that there will be—the quality of properties which are sold, in terms of their track condition, will also improve. I think that in many cases, the properties we are looking at today are those that are in the worst condition.

Senator EXON. Let me ask you this question, Mr. Anderson. Line sales have slowed considerably in the past year. There are lots of reasons for that I guess, but I think one of the reasons is the conflicting court decisions regarding the role of labor in sales from carriers to new, non-rail carriers.

Has this reduced the need for LRSA funds, and how might that need be affected should the Supreme Court reach a decision upholding the Third Circuit Court, and thereby restricting the ability of a railroad to negotiate a line sale in the absence of concurrence by labor?

Mr. ANDERSON. If I understand the question, basically what you are saying is, if the line sale program winds down, is there going to be a continuation of need for funds for this type of program. Yes, there certainly are needs for this program.

The FRA study showed there was probably something in excess of \$600 million in deferred maintenance that needs to be done to improve the physical plant of the railroads around the country.

Senator EXON. What I am trying to get at is that there have been suggestions that we do not have as many of these routes being sold now on a short-line basis, which is the reason for the existence of your organization. And, therefore, since we are over that hump, we can maybe cut down the LRSA funds even further.

Many of us believe that those railroads are carrying out a very valuable service, as yours obviously is, might be in serious jeopardy if there is no further funding through LRSA. Is that accurate?

Mr. ANDERSON. I would say that is accurate. Yes.

Senator EXON. Senator Pressler.

Senator PRESSLER. Thank you both for your testimony. I have a particular amount of pride in Mr. Anderson's testimony, although both of you did very well.

Mr. Anderson, let me direct my questions to you if I may, and I may have some for the record, of both of you.

Do you agree with the FRA's estimate of the need for approximately \$600 million for deferred maintenance and delayed capital improvements? What would be a more accurate estimate?

Would either one of you like to try that?

Mr. ANDERSON. The figures I have seen would illustrate that probably \$600 million is a minimum amount. I think the AASHTO group is looking at numbers probably double that. So I would think \$600 million is a conservative figure.

Mr. FULLER. I would pass on an answer to that, because my focus is more on our properties than nationally.

Senator PRESSLER. Now, Mr. Anderson, generally speaking, what would the lack of rehabilitation mean to the long-term health of the Dakota-Minnesota & Eastern Railroad?

Mr. ANDERSON. With the lack of rehabilitation of the railroad itself, we would not be in existence very long. The physical plant we inherited when we purchased the property was in very bad shape, major portions of our main line were restricted to from 5 to 10 miles an hour.

Without the funding help that we have already received for the branch line work from the LRSA program, and also through the FRA 505 rehabilitation loan that you Senator Pressler were very instrumental in helping the DM&E secure and for which we are very grateful. I would think it would just be a short period of time before we would be out of existence. Our track structure just physically would not handle the volume of traffic that is necessary to move out of our state without rehabilitation.

Senator PRESSLER. I think for the record it should be understood that the DM&E is our only statewide railroad that carries the kind of products that you carry. Now, from Rapid City what types of products do you haul? And then I know you go on to Philip, where I have just recently attended the Philip-Charlay bull sale. And you are a very popular railroad there.

And I will be back in Philip, in western South Dakota for the covered wagon train on our centennial, the 4th of July. But, tell me some of the products you haul out of Rapid City, Philip and eastward?

Mr. ANDERSON. Primarily, in the western end of the state, we haul agricultural commodities, with wheat the biggest single commodity. From the Rapid City area, we haul big volumes of cement from the Rapid City Cement Plant to paving projects and construction projects in the eastern part of the state, and actually over into Minnesota as well.

And we also haul a lot of wood products, wood chips, coming out of the Black Hills, that travel the entire length of our main line, and go to the paper industry in the State of Wisconsin.

Senator PRESSLER. How about hauling machinery back into the area? What do you back-haul?

Mr. ANDERSON. We do haul some machinery and we haul some fertilizer. Back hauling is one of the things that we are working on, to try to generate additional business westbound. The predominate flow in our traffic is eastbound at this point.

Senator PRESSLER. Let me dig into this business of how much the states provide, because, very frankly, I wish my state would provide more. I know that Minnesota provides a larger amount of money, but as a practical matter, and I know that FRA, in their testimony here today, they asserted that rehabilitation funding is available through the states and private sectors.

Would you comment on this whole subject?

Mr. ANDERSON. As I understand it, the State of South Dakota, by statute, cannot loan money to the railroads at this point in time. They do not have any funding at all available for rehabilitation of rail line.

They do have a program for rehabilitating some road crossings and things like that. But actual physical rehabilitation of the railroad itself, there are no funds available from the state.

Minnesota does have a program, but as I described it, it is a tri-party agreement between the shippers, the state and the railroad itself. But, an integral part of our Minnesota program was some funding from the LRSA as well.

Mr. FULLER. If I may comment. New York State has been known for its funding in support of local rail projects, however, the funds available in the State of New York have dried up almost completely. Last year the state had a very nominal program. This year there are no funds available in the state budget for rail projects.

Senator PRESSLER. I want to thank you both. I think here we have built a record, Mr. Chairman, a record that we can use from this testimony.

Senator EXON. Thank you, Senator Pressler.

Senator Burns.

Senator BURNS. Thank you, Mr. Chairman.

I appreciate your testimony even though I have been in and out of this thing. Today is something else, is it not? I have got too many irons in the fire. I was interested in your comment that the condition of your lines, like in South Dakota. If we got the money to recondition those lines, are there enough funds, once these lines have been rehabilitated, through this program. Are we looking at ten years later coming back again for funding? Is there enough revenue there to justify this investment?

Mr. ANDERSON. From our point of view we are hopeful that once we can get the lines up to an FRA class II status, which is basically a 25 mile an hour minimum railroad, that we think the efficiencies are going to be there, the business is going to be there, that we are going to become much more cost efficient, that we are going to be able to attract additional business, so that we should be able to sustain our operation after we have rehabilitated the line.

But we are 2 years into the program, we have got at least another 3 years to go to fix our main line. In addition, we still have a few branch lines to fix. So we have a considerable amount of work ahead of us.

Senator BURNS. That is all I have, Mr. Chairman. Thank you very much. I appreciate both of your testimony.

Senator EXON. Thank you very much, Senator Burns.

Mr. Anderson, Mr. Fuller, thank you very much.

You have both put yourselves out to come here today. And we appreciate your expert testimony. It is going to be very helpful to us. With that, you are excused. And with that, we are adjourned.

[Whereupon, at 4:50 p.m. the hearing was adjourned.]

[The following information was subsequently received for the record:]

STATEMENT OF GREGORY BAISE, SECRETARY, ILLINOIS DEPARTMENT OF
TRANSPORTATION

Mr. Chairman and members of the Surface Transportation Subcommittee, on behalf of the Illinois Department of Transportation, I would like to thank you for holding hearings on the reauthorization of the Local Rail Service Assistance Program (LRSA). I appreciate the opportunity to present our views for the record.

The LRSA program, which expired at the end of FY 1988, has been an important element in Illinois' rail freight program and we strongly support its reauthorization. This program provided much needed capital assistance necessary to retain essential rail freight service over light density lines or to secure alternative facilities.

The Staggers Act of 1980 gave the railroads much greater freedom to alter their systems to shed unprofitable lines. Illinois supported these changes, and continues to do so, and believes that the national rail system is stronger because of this federal action. However, there have been substantial negative economic impacts as well in many states. In many cases these impacts can be greatly mitigated by having relatively small amounts of capital funding available, often just augmenting private financing, to retain service on selected viable segments. Illinois believes that the federal government has a responsibility to share in the cost of mitigating the economic dislocations caused by granting greater freedom to restructure the national rail network. In addition, rail freight transportation is an essential component for the economy of rural America, providing a critical link to national and international markets. The LRSA program has helped accomplish this objective and should be continued to meet ongoing problems.

The LRSA program has provided essential capital assistance to railroads, shippers and communities faced with the loss of industries and jobs due to rail line abandonments. This assistance has also allowed capital improvements to enable expansion of existing facilities and attract new industries to locate on rail lines. It has played a significant role in retaining essential rail freight service over light density lines in our state and continues to be needed.

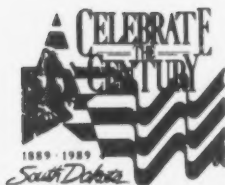
The LRSA program has been the only federal funding program to address the critical needs of our rail freight facilities and the impact they have on both the state and local economies. Currently, there are more than 600 miles of rail lines in Illinois that have been filed or identified for abandonment. Continuation of this important program will help to provide our state with the ability to rehabilitate many of these rail lines that might otherwise lose service or be removed. When coupled with the commitments of shippers, railroads and local governmental agencies, the LRSA program has been able to contribute significantly to the state's effort to preserve its vital rail infrastructure.

Since 1980, the State's Rail Freight program, in conjunction with the federal LRSA program, has provided more than \$17 million for 57 rail improvement projects which included rehabilitation of some 420 miles of track and construction of 18 new industrial spurs. This investment was responsible for the retention or creation of more than 16,300 jobs in 368 industries, leveraging almost \$160 million in private investment.

Despite these accomplishments, much remains to be done. With the railroad system still changing, the problems that the LRSA program was originally designed to address still exist. As mentioned above, there are 600 miles of rail lines just in Illinois for which railroads have filed for abandonment or have identified as potential candidates. While some of this mileage can be appropriately abandoned, for numerous segments the economic impacts would be quite serious and continued service is viable. In response to these current needs, in Illinois, there are currently 29 rail freight improvement projects under consideration of federal assistance, our ability to continue the progress already made will be curtailed, causing a loss of many industries with the associated direct and indirect economic impacts locally, for the state, and for the nation.

We are pleased that LRSA reauthorization legislation (H.R. 422) has recently received subcommittee approval in the House and we strongly support the higher funding levels included in S. 255, the multi-year reauthorization bill introduced by Senator Harkin with Senator Simon of Illinois as a co-sponsor. In recognition of the considerable hardship caused to local communities, industries, and shippers as a result of rail line abandonments, the higher funding authorizations demonstrate a renewed federal commitment to assist states in preserving essential segments of rail transportation service.

Mr. Chairman and members of the Surface Transportation Subcommittee, that concludes my formal statement for the record. Thank you for making this opportunity available and for your continued support of the nation's rail transportation needs and of Illinois' particular concerns.



Department of Transportation

700 Broadway Avenue East
Pierre, SD 57501-2586 605/773-3265

April 3, 1989

The Honorable J. James Exon
Chairman, Subcommittee on Surface Transportation
United States Senate
428 Hart Building
Washington, D.C. 20510

Dear Mr. Chairman:

The State of South Dakota strongly supports prompt enactment of legislation to re-establish the Local Rail Service Assistance program (LRSA). We understand that S. 255, legislation to authorize LRSA, will be the subject of a Subcommittee hearing on April 6. We ask that this letter (with enclosures), explaining our support for LRSA, be made part of the record of that hearing.

Introduction

LRSA is an inexpensive, yet highly beneficial program which uses federal funds as seed money to leverage local investment in rail rehabilitation or related projects. LRSA funds have helped revitalize local economies, primarily in rural America, that are dependent on rail service. The program warrants strong support.

Today, this valuable program is neither authorized nor funded. It expired on September 30, 1988, notwithstanding commendable efforts in the last Congress by you, Mr. Chairman, Senator Pressler, Senator Harkin and others who sought to extend the program.

Those efforts were based on the clear record of support for the program which was demonstrated at this Subcommittee's hearing on LRSA last May 25, where I had the privilege of testifying. Since the reasons for reauthorizing the program were explained in my previous testimony and remain valid today, I have enclosed a copy of that statement for inclusion in this year's hearing record. You may particularly recall from that testimony several case histories of LRSA projects in South Dakota. Those examples demonstrate conclusively that the benefits of LRSA are not theoretical, but very real. They show that this program makes a difference, particularly in rural states which have already lost too much rail service.

I will build on that testimony by emphasizing three points: (1) that Congress should act promptly to reauthorize and fund the program; (2) that, since this Subcommittee's hearing on LRSA last May, there has been a dramatic increase in national recognition of the need for federal investment

The Honorable J. James Exon
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in rail facilities, as would be achieved under the LRSA program; and (3) that an effective LRSA program, at the modest funding levels proposed both in S. 255 and its House counterpart, H.R. 422, should be discretionary in nature and not involve earmarking of project funds.

The Need for Prompt Congressional Action

The 1989 construction season is just beginning. If LRSA funds are to be used this year for needed and highly beneficial investments in America's transportation infrastructure, Congress almost certainly must enact legislation this spring. We also noted Secretary Skinner's recent testimony to the Senate and House appropriations committees. There he advised that the Administration would support a \$10 million supplemental for FY 1989 for LRSA only if authorizing legislation is in place. Thus, the chances that LRSA funds will be spent on projects this summer and fall will be greatly enhanced if authorizing legislation is enacted very promptly.

We are hopeful that this goal of prompt enactment of LRSA legislation can be achieved. Senator Harkin introduced S. 255, with you, Senator Pressler, Senator Rockefeller, Senator D'Amato and others on the first day bills were introduced in the Senate. You have scheduled this hearing promptly. Representative Wyden and his co-sponsors (including Representative Johnson of South Dakota) introduced LRSA reauthorization legislation, H.R. 422, on the first day bills were introduced in the House, and the House Subcommittee under Chairman Luken already has marked up H.R. 422. We commend these actions and urge the Congress to continue this fast pace until legislation authorizing and funding the program is enacted.

Growing Recognition of the Need for the Program

Re-establishing LRSA will mean saving rail lines, improving rail service and maintaining the economic vitality of rural America. LRSA funds provide needed, one-time capital assistance, thereby enabling rail lines to become self-sustaining. These investments revitalize communities served by rail lines which need rehabilitation, and communities which would otherwise face rail abandonment and economic decline.

Since the program was so successful, and is so meritorious, support for it continues to grow. Just last month, the Western Association of State Highway and Transportation Officials unanimously adopted the attached resolution supporting continuation of LRSA and the pending legislation, S. 255. This resolution cites the large rail funding needs which continue to threaten continued operation of many otherwise viable lines. It also emphasizes the importance of federal participation in rail rehabilitation projects. As many of the Subcommittee's witnesses testified last year, federal participation acts as seed money and is often the difference between putting together a successful project and losing a rail line. South Dakota has already lost 56 percent of its rail system and it and many other states can ill afford to face the future without the tools, such as LRSA, that allow states to respond to rail service needs.

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Last May, I related my responsibilities and perspectives as Director of Railroads for South Dakota, and as chairman of the Rail Funding Task Force for AASHTO. I am pleased to report that membership on this task force has doubled, as have the already high levels of interest and activity.

In addition to being a strong proponent of LRSA, this task force prepared the chapter on rail transportation that was adopted by AASHTO this February as part of its policy recommendation report entitled "New Transportation Concepts for a New Century." In this new report, AASHTO clearly states that railroads are an essential component of the nation's transportation system, and that their role must be reflected in federal transportation programs and priorities.

Further, and of direct relevance to LRSA, AASHTO sets forth as a "major policy recommendation" that "there is an appropriate role in funding rail related projects. Any comprehensive federal surface transportation program should include funds for track rehabilitation...." Thus, failure to re-establish LRSA, leaving the federal government without any program for rail rehabilitation investments, would be inconsistent with the considered judgment of the highest ranking state transportation officials that rail funding should be an essential part of the overall federal transportation program. We do not believe that rail funding should be deferred until new, comprehensive surface transportation legislation is enacted.

Another recent development is the Federal Railroad Administration's recently-completed report entitled, "Deferred Maintenance and Delayed Capital Improvements on Class II and Class III Railroads." This is the latest of several attempts to determine the scope of rail rehabilitation needs. The report identifies deferred maintenance and capital needs of approximately \$600 million. I believe that needs are actually much closer to the \$1.3 billion estimated by the National Conference of State Rail Officials (NCSRO). Regardless which estimate is used, the needs must be viewed as significant by any standard. The authorization limits proposed by S. 255 would certainly not eliminate these needs, but LRSA has proven its effectiveness in saving rail lines by funding rehabilitation projects. If S. 255 is enacted, and if Congress appropriates funds, this program will make a difference.

In short, since last year's hearings, the huge need for rehabilitation of track on smaller rail systems has been confirmed, both by compilations of data, and by the resolutions adopted by the highest level state transportation officials. Even more than last year, the need to continue the LRSA program is clear.

Structure of LRSA Program

The small size of LRSA funding relative to the \$600 million to \$1.3 billion in needs especially demands that scarce funds be put to their highest and best use. To ensure this, we offer two suggestions regarding the structure of a re-established LRSA program.

First, LRSA legislation should provide for funds (other than planning funds allocated to all states) to be distributed by the Federal Railroad Administration strictly on the basis of project merit, not on the basis of so-called "earmarking." The Federal Railroad Administration has fairly administered the program when they were responsible for allocating funds according to the merits of projects proposed by the states (with the relevant criteria established by statute (49 USC 1654(h)(3)(C))). We respectfully suggest that any Congressional earmarking diminishes the effectiveness of LRSA by preventing the limited funds from being utilized on the best projects. These projects are selected through the FRA's review of the benefit-cost analyses submitted with each project application. These analyses, combined with the requirement that federal funds be matched with at least 30 percent other funds, provide significant assurance that only highly qualified projects are approved.

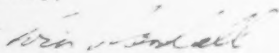
Second, LRSA legislation should follow the approach taken in Senator Harkin's amendment to the FY 1989 DOT Appropriations bill (sponsored by you, Mr. Chairman, Senator Pressler, Senator Daschle and others) which was passed by the full Senate last July. That amendment would have ensured that LRSA funds are distributed by FRA to the most meritorious projects solely on the basis of statutory criteria, including benefit-cost analysis, rather than pursuant to the outdated statutory entitlement formula. This approach is also followed in H.R. 422.

This is a highly desirable approach in a time of limited budgetary resources. When current LRSA distribution formulas were developed in 1981, LRSA funding averaged roughly \$44 million annually. When the program was that large, a formula providing project funds to each state enabled each state to receive enough money to develop projects that made a difference. Today, with a significantly smaller program, formula funding does not provide sufficient funds for states to undertake projects that effectively address problems found on even a few miles of railroad. By contrast, if most of the money in a small program is distributed on a discretionary basis, based on merit, funds can be focused on projects which produce significant rail service improvements. Thus, incorporating this approach would make S. 255, an excellent bill, even more effective in meeting national needs.

Conclusion

In summary, South Dakota strongly supports re-establishment of the LRSA program and commends you, Mr. Chairman, Senator Pressler, Senator Harkin and the other Senators and Representatives who have sponsored legislation to reauthorize the program. We are grateful for your continued interest and support. For our part, if we can provide any additional information, or otherwise provide assistance towards enactment of legislation to re-establish this program, please let me know.

Sincerely,



Christopher M. Randall
Director, Division of Railroads

STATEMENT OF CHRISTOPHER M. RANDALL, DIRECTOR, DIVISION OF RAILROADS, SOUTH
DAKOTA STATE DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Members of the Subcommittee:

Good afternoon. I am Christopher M. Randall, Director of the Division of Railroads for the State of South Dakota. South Dakota greatly appreciates your invitation to participate in today's hearing on proposed legislation to continue the Local Rail Service Assistance Program (LRSA).

South Dakota strongly supports continued authorization of (and appropriations for) LRSA. This highly meritorious program has been of particular help to the hard-pressed farming community in our state. Accordingly, we highly commend Senators Burdick and Harkin for introducing legislation (S. 2174 and S. 2195, respectively) to continue this program, and equally commend their many co-sponsors, including Senator Rockefeller and Senator Pressler of our own State. We also commend you, Mr. Chairman, for scheduling a hearing on these bills so soon after they were introduced.

Overview of Position in Support of LRSA

Our strong support for this program is the result of our favorable experience with LRSA grants. In our State we have consistently seen Federal investments in rail rehabilitation through this program pay extraordinary dividends by enhancing the economic viability of agriculture and business in rural areas.

LRSA grants are truly long term investments in our nation's infrastructure. LRSA helps rehabilitate rail lines that can be operated profitably once rehabilitated but which, for whatever reason, have either not been maintained adequately or not upgraded to modern standards. And when I say operated profitably, Mr. Chairman, I mean with future maintenance expenditures by the carrier. Thus, Federal investment under the LRSA program is in rail service which becomes self-sustaining.

While we are able to make these statements from practical experience, the theoretical basis for these results is also sound. LRSA is a matching fund program. Federal money is not provided unless there is also non-Federal money (be it state, carrier, or shipper) in the project. Thus, projects supported by LRSA are proven in advance, by the matching share requirement and other application requirements, to be viable and needed. Simply, to get LRSA dollars people also have to contribute significant resources of their own, something which is not done lightly.

On the other hand, while these projects are worthwhile and are able to attract non-Federal financial support, they are not quite able to advance without Federal "seed" money. Later in my statement I will describe specific cases where LRSA projects have provided significant economic benefits to farmers and others. These major benefits fully warrant the continuation of this program at least at the levels called for in the bills before the committee.

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Let me also note at the outset that while I appear today on behalf of the State of South Dakota, I believe that our views are representative of the views of other states. My exposure to the views of other states comes from my work through the years on committees of the American Association of State Highway and Transportation Officials (AASHTO). I am currently serving as Chairman of AASHTO's Federal Rail Funding Task Force. Although I am not here today to represent AASHTO, I want to tell you that the Task Force was formed last year because states are extremely concerned with the scheduled termination of LRSA, and the Task Force members were charged with the responsibility to work towards maintaining Federal participation in rail rehabilitation. In addition to South Dakota, states serving on the Task Force are West Virginia, North Carolina, Iowa, Tennessee, and Ohio.

In the balance of my testimony today, I will first provide some background on LRSA which demonstrates how truly necessary and beneficial the proposals before the Committee are. I will then provide some specific examples of how the program helps people in rural communities. While my examples concern rail service used by South Dakota shippers, I believe they are also fairly representative of the experience of other states. I will close with some specific comments on the pending legislation.

Background

During the rail crisis years of the 1970's, Congress made major expenditures to preserve rail freight service. In addition to expenditures specifically for Conrail and for major bankrupt roads, three nationwide programs of financial assistance to improve rail infrastructure were established. A redeemable preference share program and a loan guarantee program were established in 1976 and, in 1978, LRSA was modified so that LRSA funds could be used for rail rehabilitation and acquisition projects.

These assistance programs helped address the industry's critical shortage of capital resources and, combined with major changes in railroad regulatory and abandonment policy, enabled railroads to improve their service quality and increase their capital investment programs. The industry is much more stable than it was in 1978, although this stability has resulted in part from the loss of thousands of miles of track and several railroad bankruptcies. The improved financial performance of most surviving carriers has resulted in the significant reduction of deferred maintenance on many lines.

However, as we meet here today, there are still many light density lines which could well be lost to service because it is not possible for the carrier to make, on its own, the investment in rehabilitation which is necessary to make up for lack of

capital investment in the past. We fully expect that these lines would stay in service, without further assistance, after rehabilitation involving LRSA funds.

However, Federal support for investment in rail facilities has dropped off dramatically. Last year Congress effectively terminated the ability of USDOT/FRA to use the redeemable preference share program (45 U.S.C. § 825) to make further investments in rail infrastructure. The loan guarantee program (45 U.S.C. § 831) has been inactive and the authorization for LRSA is set to expire at the end of this fiscal year.

While the rail situation in this country is better than it was in the seventies, we feel that complete Federal "abandonment" in the area of rail infrastructure investment is unwarranted and would work to the detriment of rural farmers and industries. Compared to past Federal investments, which included a \$1.4 billion multi-year authorization for purchase of preference shares, the funding levels proposed in the pending bills represent a major accommodation of budgetary concerns -- but would at least preserve this highly beneficial program. We believe that, at a minimum, LRSA should be continued at levels such as proposed in S. 2174 or S. 2195.

Benefits of LRSA Program

We believe it is particularly important to continue LRSA because the program works in a way which greatly leverages each Federal dollar spent, yielding greater benefits than expenditures.

LRSA represents a true Federal-State partnership in rail rehabilitation. States are required to conduct rail planning before requesting financial assistance for a project. The rail planning requirement not only results in a benefit-cost study of each project, it also causes states to closely examine their rail systems and select projects with the greatest overall economic and transportation benefit. This process has resulted not only in selection of worthy projects, but in the development of financial support for them. Because support has been generated by the states, the Federal share of project expenditure has often been reduced from the statutory 70% maximum to lower levels, allowing each Federal dollar to "go farther." In South Dakota, LRSA funds have averaged only 54% of project costs. Without question, the LRSA program is the reason why thousands of miles of track are in service today.

Similarly, we will lose fewer lines in the future if we are able to restore those with economic potential to safe, efficient condition. It is particularly important that LRSA have the opportunity to work in conjunction with the emergence of this

nation's regional railroad industry. Regional railroads typically operate marginally profitable lines that require significant rehabilitation to eliminate deferred maintenance and enable efficient service. They face scarce resources for capital investments, however, and their top investment priorities are their main lines. LRSA is ideally suited to complement their priorities by providing critically-needed financial assistance to branch lines. Ownership by regional railroads is often the only hope for saving many of these lines, and even this glimmer of hope will be lost unless states, shippers, railroads and the Federal government can work together and provide rehabilitation assistance. Our experience clearly demonstrates that regional railroads are willing financial participants in these rehabilitation projects, but that Federal seed money is needed.

The many benefits of LRSA result from the very nature of the assistance which it provides. As mentioned earlier, LRSA helps rehabilitate rail lines that can be operated profitably after rehabilitation but which, for whatever reason, have either not been maintained adequately or have not been upgraded to modern standards. The program does not provide operating subsidies or perpetuate inefficiency, but rather permits lines to better serve their customers and compete in the marketplace. LRSA funds and matching funds have been used to purchase crossties, rail and ballast, to re-build bridges, and to install new connections between lines. The LRSA Program is not a Federal give-away; it

provides seed money for investing in America's rail infrastructure. The program can also be used for rail acquisitions (although South Dakota has not used it for this purpose) and for state rail planning activities.

Saving rail lines has many benefits, particularly for our rural areas, which are highly reliant on efficient, affordable transportation. We usually think of grain elevators and others located on rail lines as the primary beneficiaries of rail service, but, to use agriculture as the example, it is farmers who benefit most from the availability of rail service.

South Dakota is hundreds of miles from domestic grain markets and half a continent away from the Gulf and Pacific Northwest export markets. Without rail service, South Dakota would be virtually foreclosed from participating in the export markets and severely limited in competing in the domestic markets. Grain elevators pay producers at least five cents more per bushel when they are able to ship by rail. This amounts to \$165 per rail car and almost \$9,000 per 54 car unit train. Unit trains actually yield a much greater advantage because they enjoy lower rates than single car shipments. These unit train rates can represent up to a \$35,000 advantage per train for farmers, and these benefits indirectly flow to farm suppliers and other businesses on Main Street. Clearly, our State's agricultural economy would be in significantly worse condition if it were not for rail service over lines that have been rehabilitated with LRSA funds.

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Accordingly, LRSA is strongly supported by agricultural interests in our state, and I have attached to my testimony letters supporting the program from, among others, the 5,000-plus member South Dakota Wheat Growers Association.

Let me also mention that preserving the economic viability of rural communities by preserving rail service allows trucks and railroads to complement each other in serving shippers. Trucks collect grain from off-rail producers and elevators and deliver it to large grain terminals that ship by rail, often by unit train. Another side benefit which can also result from these rail improvements is a downward competitive pressure on the cost of truck service to and from these areas.

These and other benefits of the LRSA Program can be summarized as follows. The program saves viable rail lines from abandonment by providing critically needed capital resources for rail line rehabilitation. By making the investments needed for viable rail service, LRSA preserves employment at local businesses, retains economic viability and development options for communities, and encourages private investment in shipper facilities by providing clear evidence that rail service will be provided over the long term.

Case Studies

The benefits of the program become more evident when one considers the projects we have completed in South Dakota with LRSA funds.

At one time there were approximately 4,400 miles of track in service in South Dakota. Today, 1,951 miles are still in service. That 1,951 miles includes 848 miles which went out of service as a result of the Chicago, Milwaukee, St. Paul and Pacific bankruptcy, but which were purchased by the State of South Dakota and returned to service. In other words, even with the program, South Dakota has lost 56 percent of its rail system and would have lost 75 percent if it had not been for extraordinary efforts to preserve a basic "Core System" of rail lines. LRSA was an essential tool in the rehabilitation of those lines and their return to service.

Other portions of South Dakota's rail system have also experienced restructuring, as evidenced by the fact that only 28 percent of South Dakota's active rail lines are owned by ICC Class I railroads. Of the remaining lines, 44 percent are owned by the State of South Dakota and 28 percent are owned by non-Class I carriers, including one of the nation's largest regional railroads, the Dakota, Minnesota and Eastern.

The case studies which follow and which illustrate the value of the program are:

- * The South Dakota Core System;
- * The Sioux Valley Lines;
- * The Redfield to Mansfield Line;
- * The Pierre to Wolsey Line; and
- * The Sioux Falls to Madison Line.

The South Dakota Core System

The South Dakota Core System is approximately 363 miles in length and serves much of the state's most productive agricultural area. It was formerly owned by the Milwaukee Road and was abandoned in 1980. Later that year it was purchased by the State of South Dakota, without Federal assistance, for \$14.9 million. Service was restored in 1981.

When purchased, the track failed to meet even standards for 10 mph service and it could not support unit train operations. Since that time, \$19 million has been invested in the track, with only 42 percent provided by the Federal government. The remainder has been provided by South Dakota.

The Core System now supports 25 mph unit train service. Traffic has increased each year and has exceeded 12,000 cars in each of the last three years. The Core System has never received a state or Federal operating subsidy.

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One of the benefits of stable, dependable rail service on the Core System has been private investment in modern grain handling facilities. These investments have varied from additional storage capacity to improved side tracks and entirely new facilities. The Core System now enjoys 10 elevators that ship unit trains where none existed previously. Improvements have also occurred in facilities for handling other commodities, such as fertilizer, and in a manufacturing plant that receives raw material by rail and which undertook a \$6.5 million expansion which generated more than 100 new jobs.

The Sioux Valley Lines

The Sioux Valley Lines are composed of two separate lines, one a former Milwaukee line and one a former Chicago and North Western line. Together, they represent 67 miles of track, 36 of which lie in Iowa, but which also serve South Dakota grain producers. The lines were purchased by South Dakota but were not included in the Core System, and the state worked with the shippers to try and restore rail service. This was accomplished, and a program was initiated to rehabilitate and upgrade the lines to the minimum level needed to support viable service, even though at very low speeds. The project cost \$812,000 and included no Federal funds. In fact, 40 percent of the funds were obtained from shipper contributions and another 34 percent was a

loan from South Dakota that the shippers have almost entirely repaid. Only 26 percent of the project cost was provided through a state grant.

In 1987, South Dakota applied for, and received, funds to begin rehabilitating one of the Sioux Valley lines so that it could sustain train speeds up to 25 mph. That 18 mile project is now in progress and we plan to apply for funding to complete the project if the program is reauthorized. The line is used not only by several grain elevators but also by a major rock quarry that produces construction aggregates and railroad ballast. Without this rail line the quarry's ability to compete, even in its historic markets, would be adversely affected. We believe this project illustrates the need for Federal rail funding and exemplifies the fact that our rail rehabilitation work is not yet complete.

Redfield to Mansfield

Without doubt, the Redfield to Mansfield line would not exist if it were not for the LRSA Program. Formerly owned by the Chicago and North Western, it was almost inoperable when it was purchased by the Dakota, Minnesota and Eastern Railroad (DM&E) in 1986. I can honestly say that I have seen abandoned track in better condition than this track, which was in service. The line is 26 miles in length and is only a few miles from other rail lines, but its greatest asset is a group of shippers totally committed to rail service.

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The line was only a small part of the DM&E system and was not a high priority for rehabilitation because the DM&E main line also required substantial rehabilitation. Nevertheless, the line was important as a traffic generator and the shippers, the DM&E, and South Dakota believed it should be saved. LRSA funds were received, and today this line supports rail service at 25 miles per hour without weight restrictions. The DM&E participated financially in the project and enjoys the traffic generated on the line. The improvements have also enabled the shippers to maintain their markets in a highly competitive environment.

Pierre to Wolsey

The Pierre to Wolsey line is a 107 mile portion of the former C&NW (now DM&E) main line through central South Dakota. In 1980, train speeds were restricted to 10 miles per hour, there were frequent derailments, and it looked very possible that the entire line to Rapid City (a total of 273 miles) could be abandoned. In fact, the western part of the line, 166 miles, was once the subject of an abandonment proceeding and continued in service only by virtue of a tie vote at the ICC. With the help of LRSA funds, the Pierre to Wolsey line was rehabilitated to 25 mph standards and survived to be acquired by the DM&E, which plans further rehabilitation and maintenance programs. If this line had been lost, there would have been a substantial and negative impact on South Dakota's agricultural economy. To illustrate this fact, the grain elevator at Pierre, the state

capital, handled approximately 14 million bushels of grain in 1987. Virtually all of it was shipped by rail over the Pierre to Wolsey line. If the line had been lost, it is extremely doubtful that the DM&E would have been formed and very likely that lines now operated by the DM&E would have been abandoned by the C&NW. Additionally, the lack of rail service would have forced grain producers to plant alternative crops or pursue other agricultural interests.

Sioux Falls to Madison

In 1980, the Burlington Northern's Sioux Falls to Madison line was the sole survivor in an agriculturally productive part of South Dakota. Unfortunately, the line was unable to support unit trains or rail service above 10 miles per hour. An innovative funding package raised the \$5.7 million needed to completely rebuild the track and make it one of the most efficient grain-gathering lines in South Dakota. The rehabilitation program motivated Burlington Northern to acquire 6 miles of abandoned Milwaukee track and restore service to a major grain terminal. The funds included assistance under LRSA (31 percent), and from Burlington Northern (27 percent), and a loan from the shippers to BN (42 percent).

If this line had been abandoned, a large portion of South Dakota would have been denied rail service and the impact on the agricultural economy would have been significant. The LRSA

Program provided critically-needed funds to not only save the line but rehabilitate it to the condition needed to serve its customers.

Pending Legislation, S. 2174 and S. 2195

We heartily support both S. 2174 and S. 2195. Both of them would correctly extend LRSA and maintain its basic structure.

As between the two bills, we prefer the greater program stability that would be provided by S. 2174's five year authorization to the three year authorization in S. 2195. However, we support the \$35 million annual authorization contained in S. 2195 over the \$30 million annual authorization contained in S. 2174. We believe that program needs more than justify an authorization of this size. Indeed, a 1985 nationwide AASHTO survey identified \$1.33 billion in needs in 47 states which could be addressed under LRSA.

Both bills would change the matching share requirements of present law by reducing the maximum permissible level of Federal participation. We would prefer not to reduce the current 70 percent maximum Federal share and believe this legislative change is unnecessary. As I have described, even without legislation, many LRSA projects have been completed with less than 70 percent Federal participation. As for South Dakota, we would not object if, in order to make LRSA funds go further, a slight reduction in

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the Federal share were enacted, such as proposed in S. 2174 or S. 2195. Moreover, in general, many states and other interested parties would be hard pressed to come up with the additional funds that would be required to make up for a significantly reduced Federal share.

A continued substantial Federal matching share, as well as continued Federal LRSA funding itself, is also warranted by practical limitations on the ability of States to contribute funds. South Dakota and a number of other states are prohibited by their constitutions from using public funds for private purposes. Thus, we can provide state funds for rail projects only on state-owned lines or through political subdivisions that are also participating in the project. I wish to emphasize that few, if any, states possess the funding mechanisms to replace LRSA funds with state funds. Rehabilitation of light density rail lines has been, and should continue to be, a partnership of Federal and state government and private parties. Given these restrictions on state funding, as well as a shortage of funds, the loss of Federal funds would severely restrict our rail rehabilitation options and result in rail line abandonments.

We are also pleased that, under both of the bills before us today, LRSA funds could be used by States for rail planning. Historically, it has been the practice under the LRSA Program to make \$50,000 available to each state for the purpose of performing state rail planning. States use these funds for state

personnel salaries or for other planning efforts, and this rail planning assistance is the primary reason why many states have undertaken these very beneficial activities. States are now much more able to assist shippers with their rail service problems and to work with other transportation planners to design transportation systems that maximize the strengths of each transportation mode. States that choose not to utilize all their allocation of funds for planning purposes are able to use them for rehabilitation projects. We recommend that Federal assistance for state rail planning be continued.

The Need For Appropriations

Implicit in our support for rail planning funds, and for funding at least at the levels that would be authorized by S. 2174 and S. 2195, is our support for appropriations for the program in amounts which would support both rail planning and project expenditures.

As to project expenditures, in recent years, legislation appropriating LRSA funds has specifically designated where most assistance should go. Previously, funds were awarded for projects after the Federal Railroad Administration evaluated competing applications filed by the states. We are comfortable with and prefer the FRA's review process. We believe that it does help ensure that Federal taxpayers get the most for their LRSA dollars. We hope that a reauthorized LRSA will be

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administered under such a process. However, if a continued LRSA results in specific allocation decisions being made in Congress, it is our intention to work with the Congress so that those allocation decisions will be made with knowledge of proposed projects.

However, our main concern with appropriations for this program is to secure them, as they are needed if the LRSA program is to succeed. Thus, we urge this Committee to work with the Members of the Appropriations Committee and other Members of Congress not only to pass authorizing legislation, but appropriations for this program as well.

Summary and Conclusion

Mr. Chairman, South Dakota greatly appreciates this opportunity to express its view that the Local Rail Service Assistance Program should be continued. It is a program that has been extremely successful in saving rail lines, improving rail service, and maintaining the economic viability of rural America. We enthusiastically support it.

LRSA is not a rail operating subsidy program. It is a rail infrastructure improvement program that is needed to address the deferred maintenance problems that were inherited from a time when the rail industry was typified by bankruptcies and virtually non-existent resources.

We have accomplished much during the first 10 years of LRSA support for infrastructure improvement, but there is still more that we need to do together. LRSA represents a successful solution to some of the rail infrastructure problems and it is a method of uniting states, shippers, railroads, and the Federal government toward the common goal of saving rail service which is needed, particularly in small farm communities.

South Dakota therefore respectfully requests that the Congress enact legislation needed to reauthorize this program and provide appropriated funds for it. For our part, we pledge our efforts to maintain the record of achievement that the program enjoys.

Thank you again for the opportunity to testify. At this time I would be pleased to answer any questions the Committee may have.

STATEMENT OF
JAMES J. KENNEDY, JR.
EXECUTIVE SECRETARY-TREASURER
RAILWAY LABOR EXECUTIVES' ASSOCIATION

My name is James J. Kennedy, Jr. I am Executive Secretary-Treasurer of the Railway Labor Executives' Association to which I was elected by the members of the Association. The offices of the RLEA are located at 400 First Street, N.W., Washington, D.C. 20001.

The RLEA is an unincorporated association whose members are the chief executive officers of the standard national and international railway labor organizations which I list below, representing virtually all of the contract employees on the railroads operating in the United States.

This statement is submitted by the RLEA in opposition to the enactment of S. 255, the Local Rail Service Assistance Reauthorizing Act of 1989. The RLEA opposes this legislation because the funds authorized and appropriated through its enactment will be used to aid in the destruction of jobs of employees of railroads of this country.

Local rail service assistance funds are used to subsidize the creation and maintenance of so-called "short line railroads" created by the sales of lines of railroad owned by Class I railroad carriers to paper corporations to be operated by those companies at substandard wages by skeleton work forces. Many of these sales could not take place without the monies provided through the Local Rail Services Assistance Program.

Rail Labor supported the inauguration of this program and continued to support its renewal because it was to provide a means whereby states could retain needed railroad service. However, since the Commission's "creative and innovative" interpretation of the Interstate Commerce Act: 1) permitting

sales of lines of railroad to paper corporations, organized to purchase such lines, with money obtained by mortgaging those very lines and from the Local Rail Service Assistance Program; and 2) exculpating both the purchasers and sellers of those lines from any responsibility for the employees affected thereby, employment in the rail industry has suffered as have thousands of employees and their families.

The railroad employees of this nation are already "aiding" their states and local communities in the creation of short lines through the sacrifice of their jobs and by continuing to work, those who are lucky enough to do so, at substandard rates of pay. We do not believe that these employees should further subsidize the destruction of their jobs through the federal taxes which they would pay toward the support of this program.

If the employees adversely affected by the use of this federal money in the purchase and maintenance of short line and regional railroads were protected in the same manner as the employees adversely affected by payment of government funds in other programs, such as the Urban Mass Transportation Act, the RLEA would reconsider its opposition. But until such protection is afforded these employees, the RLEA has no alternative but to strenuously oppose legislation which inevitably will result in the destruction of railroad jobs.

Thank you.

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